



## NOTES TO FINANCIAL STATEMENTS

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The notes are an integral part of the  
financial statements.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements  
June 30, 2006

PRINCE GEORGE'S COUNTY  
Notes to Financial Statements

<u>Reference</u>	<u>Subject</u>	<u>Page</u>
Footnote 1	Summary of Significant Accounting Policies	
a.	Reporting Entity	36
b.	Basis of Presentation	37
c.	Bases of Accounting	38
d.	Budgetary Data	39
e.	Cash and Cash Equivalents	40
f.	Investments	40
g.	Special Assessments Receivable	40
h.	Allowance for Uncollectible Receivables	41
i.	Inventories	41
j.	Prepaid Costs and Deposits	41
k.	Restricted Assets	41
l.	Capital Assets	42
m.	Self-Insurance Funds	42
n.	Arbitrage Rebate Liability	42
o.	Long-Term Obligations	43
p.	Reserved and Designated Fund Balances	43
q.	Revenue, Expenditures, and Expenses	43
r.	Use of Estimates	44
s.	Total Column Government-wide Statement of Net Assets	44

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Footnote 2	Accounting Changes	45
Footnote 3	Compliance and Accountability	45
Footnote 4	Cash and Investments	45
Footnote 5	Interfund Receivables, Payables, and Transfers	51
Footnote 6	Due From Other Governmental Units	52
Footnote 7	Capital Assets	
	a. Governmental Activities	52
	b. Business-type Activities	54
	c. Component Units Activity	57
Footnote 8	Risk Management	58
Footnote 9	Pension Plans	
	a. Primary Government	60
	b. Component Units	66
	c. Postemployment Benefits Other Than Pensions	66
	d. Other Benefits - LOSAP	67
Footnote 10	Deferred Compensation Plans	67
Footnote 11	Deferred Revenue	67

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Footnote 12	Bonded Debt	
a.	Outstanding Long-term Liabilities	68
b.	Bonded Debt Transactions	69
c.	Debt Service Requirements	69
d.	Bonded Debt Details	70
e.	Bond Authorizations	72
f.	Prior Period Defeasance of Debt	73
Footnote 13	Conduit Debt Transactions	74
Footnote 14	Other Long-term Liabilities	75
a.	Pension Obligations	76
b.	Compensated Absences and Termination Benefits	76
c.	Notes Payable	78
Footnote 15	Reserved and Designated Fund Balances	81
Footnote 16	Summary Disclosure of Significant Contingencies	
a.	Litigation	82
b.	Contingent Liabilities	82
c.	Operating Leases	83
Footnote 17	Joint Ventures	84
Footnote 18	Jointly Governed Organization - COG	85

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(1) Summary of Significant Accounting Policies

The accounting policies of Prince George's County, Maryland conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the County's significant policies:

(a) Reporting Entity

Prince George's County, Maryland (the County) is a body corporate and politic founded in 1696 as a political subdivision of the State of Maryland, which performs all local government functions within its jurisdiction. The County operates under a "home rule" Charter adopted in November 1970. Under the Charter, the County is governed by an elected County Executive and nine-member County Council.

As required by GAAP, the accompanying financial statements include the various departments and agencies of the Primary Government and the County's component units, entities for which the County is considered to be financially accountable because of the significance of their operational or financial relationship with the County.

The government-wide financial statements include a separate column for the Board of Education of Prince George's County, Maryland and a separate column combining all other discretely presented component units. Each component unit is legally separate from the Primary Government and has a June 30 fiscal year end. There are no blended component units, i.e., legally separate component units whose financial information is combined with the operations of the Primary Government, included in this financial report. A description of the County's eight discretely presented component units follow:

- (i) The Board of Education of Prince George's County, Maryland (Board of Education or the Board) The Board operates all public schools (grades K through 12) within the County. The Board is fiscally dependent because the County: approves its budget, is legally obligated to fund the Board's operations, and issues and is obligated to pay debt for the Board. A complete financial report is available through the Board's administrative offices located at: Sasscer Administration Building, 14201 School Lane, Upper Marlboro, Maryland 20772.
- (ii) The Housing Authority of Prince George's County (Housing Authority) The Housing Authority was created to develop safe, sanitary, and decent housing for County citizens. The governing body and management personnel are appointed by the County Executive. The County also approves the budget of the Housing Authority. Requests for copies of financial statements should be addressed to the administrative offices of the Housing Authority, which are located at Inglewood Center III, 9400 Peppercorn Place, Suite 200, Landover, Maryland 20785.
- (iii) The Industrial Development Authority of Prince George's County (IDA) The IDA is a public building authority providing physical facilities to local governments located in the State of Maryland. The County appoints a majority of the governing body and is able to impose its will through approval of the IDA's budget and substantial involvement in IDA operations. Requests for copies of financial statements should be addressed to the administrative offices of the Industrial Development Authority, which are located at 14741 Governor Oden Bowie Drive, Suite 3151, Upper Marlboro, Maryland 20772.
- (iv) The Prince George's County Memorial Library System (Memorial Library or Library) The Memorial Library operates the County's public library system. The County is legally obligated to provide financial support to the Library. The County approves its budget, holds title to its assets, and can unilaterally abolish the Library. Requests for the Library's financial statements should be made to the administrative offices located at: 6532 Adelphi Road, Hyattsville, Maryland 20785.
- (v) The Prince George's Community College (Community College or College) operates a higher education institution within the County. The County is legally obligated to provide financial support to the College. In addition, fiscal dependency criterion applies because of the County's substantial budgetary approval authority. Individuals interested in obtaining detailed financial statements for the College should contact its administrative offices: 301 Largo Road, Landover, Maryland 20772.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

- (vi) The Prince George's Community Television, Inc. (PGCT) PGCT operates local government public access channel programming for cable television operations. The County appoints a majority of the governing body and imposes its will over PGCT operations. PGCT is fiscally dependent on the County (i.e., the County has substantive approval authority over the budget, sets fees, and prohibits debt issuances.) A full set of financial statements is available from PGCT's administrative offices located at 9475 Lottsford Road, Suite 125, Landover, Maryland 20785.
- (vii) The Redevelopment Authority of Prince George's County (Redevelopment Authority) The Redevelopment Authority was created to provide residential, commercial, or industrial development or redevelopment within County boundaries. The County appoints a majority of the governing body and is able to impose its will through approval of the Redevelopment Authority's budget and substantial involvement in Redevelopment Authority operations. Requests for copies of financial statements should be addressed to the administrative offices of the Redevelopment Authority, which are located at 9201 Basil Court, Suite 155, Largo, Maryland 20774.
- (viii) The Revenue Authority of Prince George's County (Revenue Authority) The Revenue Authority was created to develop projects within the boundary lines of the County devoted wholly or partially for public uses and to stimulate employment and economic growth. The Revenue Authority is also responsible for the acquisition, construction, and operation of parking and related facilities for motorized and non-motorized vehicles within the County. The County appoints a majority of the governing body and is able to impose its will through approval of the Revenue Authority's budget and substantial involvement in Revenue Authority operations. Additionally, the County must approve and is responsible for all bonded debt issuances. Requests for financial statements should be directed to the Revenue Authority's administrative offices: 1300 Mercantile Lane, Suite 108, Landover, Maryland 20785.

As discussed in Note 16, the Washington Suburban Sanitary Commission, Washington Suburban Transit Commission, Washington Metropolitan Area Transit Authority, and the Maryland-National Capital Park and Planning Commission are not part of the reporting entity, but rather are considered joint ventures for financial reporting purposes.

(b) Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities report non-fiduciary financial activity of the County and its component units. The majority of inter-fund activity is eliminated from the statements. Governmental activities, which are mainly supported by tax revenue, are reported separately from business-type activities, which rely on fee charges to external parties. Additionally, the primary government is reported separately from its component units.

The statement of activities compares direct expenses and program revenues for distinct activities and for each of the County's governmental and business-type activities. Direct expenses are those that are specifically related to a program or function. Program revenues includes (1) fees and charges for services generated by a programs and (2) grants and contributions restricted to a particular program. All taxes and other items not included as program revenues are reported as general revenues.

Fund Financial Statements: Fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The focus is on major governmental and enterprise funds, which are reported in separate columns in the fund financial statements. The remaining governmental funds are combined and reported as non-major funds.

The County reports the following major governmental funds:

General Fund - The General Fund is the County's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Federal and State Aided Programs - This Special Revenue Fund accounts for direct financial assistance received by the County through categorical grants from Federal and State agencies.

Capital Projects Fund - The Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

The County reports the following major proprietary funds:

Solid Waste – This fund accounts for the disposition of refuse, garbage, rubbish, or any other matter to ensure the public health of the inhabitants of the County. The fund also covers programs and activities associated with solid waste management, environmental protection, and recycling and clean-up of the environment.

Stormwater Management Fund – This fund accounts for the servicing of County stormwater management facilities including floodplain maintenance, stormdrain maintenance, and a variety of rehabilitation, repair and maintenance contracts for open channels, ditches, and flood channels.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

The County also reports the following additional funds:

Internal Service Funds - Internal Service Funds are proprietary funds that account for vehicle maintenance, information technology, and risk management services to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis.

Pension Trust Funds - Trust Funds are fiduciary funds out of which retirement annuities and/or benefit payments are paid and designated to public employees.

Agency Funds - These fiduciary funds account for money held on behalf of other governmental entities for taxes collected by the County.

(c) Basis of Accounting

Government-wide, Proprietary and Pension Trust Funds are accounted for using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The County applies all applicable FASB pronouncements issued on or prior to November 30, 1989 in accounting and reporting for its government-wide and proprietary fund financial statements - unless these pronouncements conflict with GASB pronouncements. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the business-type and governmental funds of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Stormwater Management Fund and Solid Waste Fund and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

Governmental funds are used to account for the County's general government activities. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County considers most revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded when payments are due.

Property taxes, interest, charges for services, and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the County and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting.

The County reports deferred revenue in its financial statements. Deferred revenues arise in governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the County receives resources before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(d) Budgetary Data

The Prince George's County Charter requires that certain transactions be accounted for on a basis other than GAAP. Actual results of operations are presented in the Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual General Fund - in accordance with legislative requirements, in order to provide a meaningful comparison of actual results with budget estimates. Under the budgetary basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only a reservation of fund balance (GAAP basis). This treatment of encumbrances represents one of two material differences between the GAAP and budget basis. The other significant difference relates to the presentation of purchase agreement financing transactions. These transactions represent equipment or real estate lease purchase contracts where an escrow account is maintained under a three-party agreement between the County, the leasing company, and the fiscal escrow agent, who controls the receipt of the financing proceeds and disbursements for equipment and real estate purchases. Under the GAAP basis, both the purchases and periodic principal and interest on the financing must be recorded; however, under the budgetary basis, only the principal and interest payments are recorded.

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to January 15, the Component Units submit to the County Executive a proposed budget for the fiscal year commencing the following July 1.
- Prior to April 1, the County Executive submits to the County Council a proposed operating budget for the County, which includes the needs of the Component Units for the upcoming year. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the County Council to obtain taxpayer comments.
- Prior to June 1, the budget is legally enacted through passage of an ordinance.
- The appropriated budget is prepared by fund and by object within an agency. The County Executive is authorized to transfer budgeted amounts within an agency within any fund; however, the County Council must approve any revisions that alter the total expenditures of any agency or fund. No agency of the Primary Government shall during any fiscal year expend, or contract to expend, in excess of the amounts appropriated in the budget for such fiscal year. The level of budgetary control (level at which expenditures/expenses are monitored) is maintained at three major object classifications: compensation, other current expenditures/expenses (which include debt service payments, expenditure recoveries, and operating transfers out), and capital outlay. The legal level of control is exercised at the agency level in the General Fund. No County liability shall be incurred or contracted by any department, agency, or employee and no bill or invoice shall be approved or paid, unless the Council has authorized by budget adoption or a specific appropriation to cover payment out of public funds. Any person willfully violating this provision shall be deemed to be responsible for the contract, debt, or expenditure. The agency head allowing such action shall be subject to such disciplinary action as the Council shall determine.
- Subsequent to passage of the budget ordinance, County Council may approve supplemental appropriations. During fiscal year 2006, such supplemental appropriations amounted to a \$76.7 million increase in the Primary Government's General Fund budget (major fund).
- All unencumbered appropriations in the General Fund lapse at the end of the fiscal year.



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

A Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund is located included in Exhibit A-5. The following funds of the Primary Government have legally adopted annual budgets:

General Fund  
Nonmajor governmental funds:  
    Property Management Services Fund  
    Collington Center Fund  
    Domestic Violence Fund  
    Drug Enforcement and Education Fund

Although budgets are not legally adopted for all Special Revenue Funds of the County, budgetary control is exercised. The Federal and State Aided Programs Fund's expenditures are limited to the amount awarded for the associated grant programs.

Expenditures in the Debt Service Fund are limited by authorized transfer amounts from other funds. Capital Projects Funds are appropriated at the project level. Annual operating budgets are not prepared for the Debt Service or Capital Projects Funds.

(e) Cash and Cash Equivalents

For Statement of Cash Flows purposes, the Primary Government defines cash equivalents to include the following: all highly liquid, unrestricted investments with a maturity of three months or less when purchased; all cash and investment pools which are used essentially as demand accounts; all cash with fiscal agents; and all restricted cash and investments that have been determined to be cash equivalents.

(f) Investments

Investments of the Primary Government (other than those held by the Pension Trust Funds) are stated at cost or amortized cost, unless the remaining maturity at time of purchase is one year or more, in which case they would be recorded at fair value. In the Pension Trust Funds, investments are stated at quoted market value or fair value as determined by the trustee/investment manager in the absence of readily ascertainable market values.

(g) Special Assessments Receivable

Special assessments are levied upon completion of the related projects and are payable either (a) when billed, or (b) over a multi-year period from the date of the initial billing, at the option of the benefited property owner. Special assessments receivable under the deferred payment plan amounted to \$9,861 at June 30, 2006.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(h) Allowance for Uncollectible Receivables

The County calculates its allowance for uncollectible receivables using historical collection data and, in certain cases, specific account analysis. The total allowance amounts are summarized below:

Primary Government:	
General Fund	\$ 6,414,743
Federal and State Aided Fund	10,109,016
Solid Waste Fund	383,117
Stormwater Management Fund	17,898
Internal Service Funds	<u>549</u>
	<u>\$ 16,925,323</u>

As part of the County's Community Development Block Grant and Rental Rehabilitation federal financial assistance programs, the County makes loans to residents and developers to restore and repair low-income housing units. At June 30, 2006, there were approximately \$14.2 million of outstanding loans receivable under these programs. Approximately \$4.3 million of these loans are offset by equivalent deferred revenue in the Federal and State Aided Programs Special Revenue Fund. The remaining \$9.9 million is completely offset by an allowance for uncollectible notes receivable (included in the table above), because collections are highly uncertain. In many cases, the County has agreed to forgive loan repayment if the resident/developer complies with certain requirements that may include residing in the property for a certain number of years.

(i) Inventories

Inventories, consisting of expendable items held for consumption, are stated at the lower of cost (first-in, first-out method) or market or at average cost, which approximates the first-in, first-out method of costing. The cost of such items is recognized as an expense or expenditure when used in operations.

(j) Prepaid Costs and Deposits

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid expenses.

(k) Restricted Assets

Proceeds from debt and funds set aside for payment of revenue bonds and other general obligation debt are classified as restricted assets since their use is limited by applicable debt agreements.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(l) Capital Assets

Capital assets which include land, buildings, equipment, and infrastructure assets (e.g. road networks, bridges, stormwater property, and similar items) are recorded at cost and as governmental or business-type activities in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Contributed capital assets are recorded at estimated fair market value at the time received. Assets recorded under capital lease agreements are recorded at the lower of fair value or the net present value of minimum lease payments on the date of the lease inception. Interest is capitalized on assets acquired or constructed with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of borrowing until installation or completion of the project with interest earned on invested proceeds over the same period. During the current period, net interest costs of \$306,959 (net of \$24,694 of interest income) were capitalized.

The costs of normal maintenance and repairs that do not materially extend the assets useful lives have not been capitalized.

Depreciation has been recorded over the following estimated useful lives using the straight-line method:

Land improvements	10 - 20 years
Buildings and plant improvements	3 - 50 years
Stormwater property in service	50 years
Equipment and machinery	3 - 20 years
Bridges	50 years
Road Networks	60 years

The Primary Government's landfill facility at Brown Station Road is currently being expanded by the construction of eleven new treatment areas referred to as "cells." Seven cells are currently operational. The total estimated cost of the operational cells was transferred from construction-in-progress to landfill property in service based on the total acreage of the operational cells as a percentage of the total landfill acreage multiplied by total estimated costs of the entire facility. Depreciation is computed by dividing the number of tons of refuse dumped by total estimated landfill capacity, which is then multiplied by the estimated total landfill cost. An independent engineer estimates the total capacity of the landfill as 9,800,000 tons.

(m) Self-Insurance Funds

Included in the estimated liability for pending claims are estimates of incurred but not reported claims and incremental claims adjustment expenses for all lines of coverage.

(n) Arbitrage Rebate Liability

The liability for rebated arbitrage earnings amounting to \$264,875 and \$37,008 in the governmental and business-type activity columns, respectively, is included in accounts payable in the government-wide financial statements. This liability represents the excess investment earnings on unspent bond proceeds over the bond yield, in accordance with the Internal Revenue Code of 1986 as amended.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(o) Long-term Obligations

(i) Long-term Debt

In the government-wide financial statements and the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable, governmental activities, business-type activities, or proprietary fund type statement of net assets. For long-term obligations, only that portion expected to be financed from current available financial resources is reported as a fund liability of a Governmental Fund. Long-term liabilities to be financed from proprietary fund operations are accounted for in those funds.

(ii) Bond Premiums/Discounts and Issuance Costs

Bond premiums and discounts, as well as issuance costs, for government-wide and proprietary fund financial statements are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premiums or discounts are reported as a net addition or reduction of the face amount of bonds payable. Issuance costs are recorded as deferred charges.

In the governmental funds financial statements, bond premiums and discounts are recognized in the current period. Issuance costs, whether or not withheld from actual debt proceeds, are reported as debt service expenditures.

(iii) Bond Covenants

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. The County is in compliance with all bond covenants.

(p) Reserved and Designated Fund Balances

In the governmental funds financial statements, portions of the County's fund balances are reserved for specific future uses. Such reservations evidence third party claims that have not materialized as liabilities at the balance sheet date, or assets that - because of their non-monetary nature or lack of liquidity, e.g., inventories - represent financial resources not available for current appropriation or expenditure. Designations represent management's tentative plans for future use of financial resources.

(q) Revenue, Expenditures, and Expenses

(i) Property Tax Revenue Recognition

Prince George's County's real property taxes are due and payable on the first day of July each year, the levy date and the date on which an enforceable lien attaches to the property. Levies are based on assessments as certified to the County by the State of Maryland Department of Assessments and Taxation. Such taxes are overdue and in arrears on the first day of October, at which time interest and penalties are charged at the rate of 20% per annum on all unpaid accounts. Personal property and real property taxes levied for fractions of a year are due when billed and are overdue within 30 days of billing. General property taxes receivable, prior to considering the allowance for uncollectibles of \$6,233,190 at June 30, 2006, amounted to \$12,663,254.

Property on which taxes remain in a delinquent status as of the second Monday in May is placed for tax sale.

At the November 1978 General Election, the voters of the County adopted an amendment to the Charter limiting future collection of real property taxes to the amount collected in fiscal year 1979. The amendment, which became effective in December 1978, added Section 817B to the Charter. It is generally referred to in the County as "TRIM" (TRIM is an acronym for Tax Reform Initiative by Marylanders).

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

An amendment to TRIM was approved by the voters of the County at the November 1984 General Election, authorizing the Council to levy taxes beginning in 1986 on a maximum rate basis as an alternative to the maximum amount basis. The maximum rate authorized was two dollars and forty cents (\$2.40) for each one hundred dollars (\$100) of assessed value. Beginning in fiscal year 1992, the Court of Appeals upheld the authority of Prince George's County to increase the tax rate to pay principal and interest on bonds outstanding prior to the effective date of "TRIM". Prior to fiscal year 2002, real property in the County was assessed at 40% of the phased-in market value. Pursuant to a change in State law, real property in fiscal year 2002 was assessed at 100% of the phased-in market value. For fiscal year 2006, the tax rate was set at ninety-six cents (\$0.96) and two dollars forty cents (\$2.40) for each one hundred dollars (\$100) of assessed value for real and personal property, respectively. There were no bonds outstanding issued before the effective date of "TRIM".

(ii) Landfill Operations - Primary Government

- Revenue Recognition

The revenue of the County's landfill operations reported in the Solid Waste Enterprise Fund is based upon service rates authorized by the County Council. These rates are intended to produce revenue approximately equal to costs similar to certain types of regulated enterprises. Therefore, the Solid Waste Enterprise Fund follows accounting guidance for regulated enterprises.

- Closure and Post-closure Care Costs

The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria," establishes certain closure and thirty (30) year postclosure care requirements affecting municipal solid waste landfills. In accordance with GAAP, the County accrues for closure and post-closure costs related to its landfill operations. Consistent with accounting policies for regulated enterprises, the recognition of closure and post-closure care costs otherwise chargeable to expense have been deferred because it has been determined that future estimated revenue in an amount at least equal to the deferred cost will result from inclusion of those amounts in allowable costs for rate-making purposes, and that future revenue will be sufficient to permit recovery of the previously incurred cost as well as to provide for expected levels of similar future costs. The deferred landfill closure costs are recognized to the extent that designated revenues are collected. In fiscal year 2006, \$10.50 per ton of solid waste dumped was designated for closure and postclosure costs.

(r) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses or expenditures during the reporting period. Actual results could differ from those estimates.

(s) Total Column Government-wide Statement of Net Assets

The total column for the reporting entity includes a reclassification for the unrestricted net asset deficit related to component unit debt (\$412,915,242). The reclassification is necessary because the County issues debt to finance construction projects for its component units (Board of Education and Community College); however, the component units own the assets. The debt reduces unrestricted net assets for the County, while the capital assets are reported in net assets invested in capital assets, net of related debt by the component units.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(2) Accounting Changes

In December 2004, the GASB issued Statement 46, "*Net Assets Restricted by Enabling Legislation*." This Statement establishes and modifies requirements related to restrictions of net assets from enabling legislation. Adoption of this standard has no material impact on the County's financial statements.

In June 2005, the GASB issued Statement 47, "*Accounting for Termination Benefits*." This Statement establishes and accounting and financial reporting or termination benefits. Adoption of this standard has no material impact on the County's financial statements.

The change in accounting estimate reflected in the Solid Waste Enterprise Fund's Statement of Revenue, Expenses and Changes in Fund Net Assets and the business-type activities in the government-wide Statement of Activities is a result of an increase in capacity at the Brown Station Road Landfill. After performing a new aerial topography coupled with slide slope modifications, a permit was received to increase the slide slopes. The increase in slide slopes enabled more trash to be dumped which in turn increased the capacity of the landfill from 7.2 million to 9.8 million. As a result, the asset value of the landfill increased thereby generating a gain of \$8.4 million.

(3) Compliance and Accountability

Net Assets Deficit - Primary Government - Internal Service Fund - Workers' Compensation

The Primary Government's Workers' Compensation Internal Service Fund's net assets deficit at June 30, 2006 was \$53,048,694. The County increased normal risk management contributions by 25% and appropriated an additional \$12 million in fiscal year 2007. The County will continue to increase premium contributions and reduce certain administrative costs in future fiscal years to eliminate this deficit.

(4) Cash and Investments

(a) Investment Policy

The Primary Government's investment policy's primary objective for the management of the County's funds is the protection of investment principal in the overall portfolio through the use of diversification and third-party collateralization while maintaining sufficient liquidity to meet all cash flow requirements. The secondary objective is to maximize investment return consistent with risk limitations.

The Primary Government maintains a cash and investment pool that is available for use by all funds. Each fund's share of this pool is displayed as "Cash and investments" (restricted and unrestricted). Investment income is allocated to all funds based on the percentage of the fund's cash and investments at month-end to the total pool, with the exception of income on bond proceeds, which is allocated to the General Fund pursuant to certain legal provisions. The Component Units maintain separate bank accounts covered by Federal depository insurance or collateral held by the banks in the entity's name. Details of the component units' investment policies are included in their individual financial statements and are available to the general public [see note 1(a)]. In addition, investments are separately held by several funds. Statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities; interest bearing accounts; certificates of deposit; repurchase agreements; bankers' acceptances, money market accounts, and the State's investment pool. Statutes require that deposits, interest bearing accounts, certificates of deposit, and repurchase agreements be fully collateralized. The Primary Government's cash with fiscal agents is uninsured and uncollateralized.

The Primary Government, the Board of Education, the Revenue Authority, and the Memorial Library participate in the Maryland Local Government Investment Pool (MLGIP). The MLGIP is an external investment pool that is not subject to regulation by the SEC. However, the pool is governed by Article 95 Section 22G of the Annotated Code of Maryland and under control of the State Treasurer, subject to oversight by the MLGIP Advisory Committee. All securities in the MLGIP are valued daily on an amortized cost basis, which approximates market value.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

The Pension Plans of the Primary Government have separate investment policies that are set by each Plan's Board of Trustees to assure overall diversification of investments. Custody of Plan assets is maintained at financial institutions selected by each Board, but the responsibility for selection of specific investments is delegated to appointed investment managers. The Policy seeks to achieve a long-term rate of return on investments, net of expenses that exceeds benchmarks established by the investment committee and maintains sufficient income and liquidity to pay monthly retirement benefits. The Policy establishes a strategic target for asset allocation between equity securities (48%), fixed income (32%), real estate (5%), and alternative investments (5%). The Plans are authorized to invest in U.S. Government securities, common and international stock, money market mutual funds, corporate bonds, repurchase agreements, and real estate. State statutes do not prohibit the Plans from participating in securities lending activities.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting the exposure to fair value losses arising from rising interest rates, the Primary Government's investment policy limits investments with maturities greater than one year to a calculation based on 50% of the average of the investment low point for the last three years. Investments made with unspent bond proceeds may not have a maturity greater than 3 years at time of purchase. At June 30, 2006, investments with maturities greater than one year at time of purchase were 29.7% of the portfolio. The table below includes the Primary Governments fixed income holdings by investment type, fair value, and maturity:

Primary Government Investments (in thousands)				
Investment Type Name	Fair Value	Less than 1 year	1 to 5	Over 5
U.S. Agency Securities	\$ 145,312	34,661	101,040	9,611
Repurchase Agreements	556,335	527,646	28,689	-
Commercial Paper	45,339	45,339	-	-
Certificates of Deposit	12,500	12,500	-	-
Money Market Mutual Funds	7,423	7,423	-	-
Local Government Investment Pool	82,295	82,295	-	-
	<u>\$ 849,204</u>	<u>709,864</u>	<u>129,729</u>	<u>9,611</u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

The Pension Plans' policy limits the average maturity and duration of certain investments. The table below includes the Plans fixed income holdings by investment type, fair value, and maturity:

Investment Type Name	Pension Fund Investments (in thousands)				
	Fair Value	Less than 1 year	1 to 5	6 to 10	over 10
U.S. Government Securities	\$ 13,547	198	3,321	299	9,729
U.S. Agency Securities	28,930	1,883	14,721	3,931	8,395
Corporate Bonds	21,441	355	12,678	5,139	3,268
International Government Securities	36,856	-	18,141	8,360	10,355
Asset Backed Securities	16,166	-	1,313	6,285	8,568
Short-Term Investments	109,191	109,191	-	-	-
	<u>\$ 226,131</u>	<u>111,627</u>	<u>50,174</u>	<u>24,014</u>	<u>40,315</u>

(c) Credit Risk

Credit risk involves disclosing the credit quality of investments in debt securities as described by nationally recognized rating agencies. The Primary Government's investment policy prescribes the following credit quality standards. Banker's acceptances and commercial paper must have a debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the SEC. As of June 30, 2006, the primary government had investments in the following issuers with credit quality ratings as a percent of the total investments in debt securities as follows:

Primary Government Fund Investments (in thousands)				
Credit Risk				
Investment Type	Amount	Moody's	S&P	%
U.S. Agency Securities	\$ 145,312	Aaa	AAA	51.83%
Commercial Paper	45,339	P-1	A1	16.17%
Government Money Market Mutual Funds	7,423	Aaa	AAAm	2.65%
Maryland Local Government Investment Pool	82,295	NR	AAAm	29.35%
	<u>\$ 280,369</u>			



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

The pension plan's policy does not address credit quality, except a requirement that no more than 5% of investments can be committed to government sponsored entities unless they are AAA rated. As of June 30, 2006, the pension plans had investments in the following issuers with credit quality ratings as a percent of the total investments in debt securities as follows:

Pension Fund Investments							
Credit Risk							
Investment Type	Amount	Moody's	%	Investment Type	Amount	S&P	%
U.S. Agency Securities	27,439	Aaa	10.92%	U.S. Agency Securities	27,439	AAA	10.92%
U.S. Agency Securities	1,491	NA	0.59%	U.S. Agency Securities	1,491	NA	0.59%
U.S. Agency Securities	-	NR	0.00%	U.S. Agency Securities	-	NR	0.00%
Short-Term Investments	109,191	NR	43.46%	Short-Term Investments	109,191	NR	43.46%
Corporate Bonds	7,142	Aaa	2.84%	Corporate Bonds	6,924	AAA	2.76%
Corporate Bonds	2,684	Aa	1.07%	Corporate Bonds	929	AA	0.37%
Corporate Bonds	3,226	A	1.28%	Corporate Bonds	5,744	A	2.29%
Corporate Bonds	2,284	Baa	0.91%	Corporate Bonds	1,876	BBB	0.75%
Corporate Bonds	3,871	NA	1.54%	Corporate Bonds	3,734	NA	1.49%
Corporate Bonds	2,234	NR	0.89%	Corporate Bonds	2,234	NR	0.89%
Real Estate Investment Trust	18,804	NA	7.48%	Real Estate Investment Trust	3,264	B	1.30%
Real Estate Investment Trust	19,855	NR	7.90%	Real Estate Investment Trust	35,395	NR	14.09%
International Government Securities	14,197	Aaa	5.65%	International Government Securities	15,917	AAA	6.34%
International Government Securities	5,665	Aa	2.25%	International Government Securities	11,278	AA	4.49%
International Government Securities	5,618	A	2.24%	International Government Securities	1,982	A	0.79%
International Government Securities	1,665	Baa	0.66%	International Government Securities	1,262	BBB	0.50%
International Government Securities	3,294	NA	1.31%		-		
International Government Securities	6,417	NR	2.55%	International Government Securities	6,417	NR	2.55%
Asset Backed Securities	5,970	Aaa	2.38%	Asset Backed Securities	3,845	AAA	1.53%
Asset Backed Securities	1,269	Aa	0.51%	Asset Backed Securities	-	AA	0.00%
Asset Backed Securities	1,385	A	0.55%	Asset Backed Securities	1,816	A	0.72%
Asset Backed Securities	1,117	Baa	0.44%	Asset Backed Securities	598	BBB	0.24%
Asset Backed Securities	1,185	NA	0.47%	Asset Backed Securities	4,006	NA	1.59%
Asset Backed Securities	5,240	NR	2.09%	Asset Backed Securities	5,901	NR	2.35%
	<u>251,243</u>				<u>251,243</u>		

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(d) Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Plans investment in a single issuer. The Primary Government's investment policy establishes maximum percentages of the portfolio for an investment class. These percentages apply at the time the investment is purchased and may be overridden to satisfy liquidity requirements. The Policy limits certain investments to less than 5% of total investments. The percentages are as follows:

<b>Primary Government Investments</b>	
<b>Investment Type Name</b>	<b>Maximum %</b>
U.S. Government Securities	100%
U.S. Agency Securities	90%
Repurchase Agreements	80%
Certificates of Deposit and Time Deposits	80%
Bankers' Acceptances	50%
Commercial Paper	5%
Pooled Investments	100%
Municipal Securities and Municipal Money Market Mutual Funds	100%

The pension plan policy limits certain investments to less than 5% of total investments. The following investments represent over 5% of total investments with a single investor.

	<u>Police</u>	<u>Pension Plans Fire Service</u>	<u>Other</u>
State Street /PIMCO			
Money Market Fund	\$ 51,409,521	\$ 24,428,337	\$ 23,887,276
Percentage	8.78%	9.05%	12.49%
State Street / GMO Global			
Money Market Fund			\$ 18,213,072
Percentage			9.52%

(e) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County or the Plans will not be able to recover deposits or collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that securities are uninsured, unregistered, and held by the counterparty, or by its trust department or agent, but not in the County or the Plans' name. As of June 30, 2006, there were no investments exposed to custodial credit risk.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The primary government's policy does not allow investments in foreign denominations. The Pension Plans' policy does allow the plans to invest in foreign currency denominations, but does not address foreign currency exposure. The table below lists the Plans' foreign currency exposure for fixed income and equity securities:

**Other Pension Fund Investments (in thousands)**  
**Foreign Currency Exposure**

<b>Local Currency</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Other</b>	<b>Total</b>	<b>%</b>
Australian Dollar	\$ 4,852	\$ -	\$ 2	\$ 4,854	0.47%
Canadian Dollar	1,300	228	-	1,528	0.15%
Danish Krone	3,833	422	8	4,263	0.41%
Euro Currency	41,231	20,788	304	62,323	6.00%
Hong Kong Dollar	7,630	-	4	7,634	0.74%
Japanese Yen	35,901	18,953	(628)	54,226	5.22%
Mexican Peso	-	442	(119)	323	0.03%
New Zealand Dollar	73	-	5	78	0.01%
Norwegian Krone	462	469	13	944	0.09%
Pound Sterling	23,003	3,943	36	26,982	2.60%
Singapore Dollar	-	1,297	1	1,298	0.12%
South African rand	-	239	-	239	0.02%
Swedish Krona	2,203	1,932	1,168	5,303	0.51%
Swish Franc	8,009	-	4	8,013	0.77%
Total Foreign Holdings	<u>\$ 128,497</u>	<u>\$ 48,713</u>	<u>\$ 798</u>	<u>\$ 178,008</u>	17.14%

(g) Securities Lending

The Board of Trustees for the Police and Fire Service Pension Plans (Plans) authorizes the lending of securities to broker-dealers for collateral that will be returned for the same securities in the future. The collateral securities, letters of credit and cash are initially pledged at 102% of the market value of the securities lent and revalued daily to ensure that the collateral does not fall below 102%. The plans are indemnified of credit risk as it relates to counterparty loan activity. The collateral securities and letters of credit cannot be sold or pledged unless the borrower defaults. As a result, such amounts have not been reported as assets and liabilities in the statement of net assets of the Pension Trust Funds. Cash collateral is invested in the custodian's short-term investment pool, which at year-end had an average duration of 58 days and a weighted average to maturity of 479 days. The relationship between the maturities of the investment pool and the loans is affected by the maturities of the securities loans made by other entities that use the pool, which the Plans cannot determine. The collateral held and the fair value of securities on loan as of June 30, 2006 totaled \$68,998,551 and \$67,618,354, respectively. Cash collateral held, amounting to \$67,943,570, is included as an asset and liability in the accompanying financial statements at year-end.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(5) Interfund Receivables, Payables, and Transfers

Interfund balances for the Primary Government as of June 30, 2006, are as follows:

Due from/to other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Federal and State Aided Programs	\$ 3,411,788
	Internal Service Funds	9,501,264
	Fiduciary Funds	118,000
		<u>\$ 13,031,052</u>

Due from/to other entities:

Receivable Entity	Payable Entity	Amount
Component Unit - Industrial Development Authority	Primary Government - General Fund	\$ 1,768,623
Component Unit - Redevelopment Authority	Primary Government - General Fund	236,548
		<u>\$ 2,005,171</u>
Primary Government - General Fund	Component Unit - Housing Authority	\$ 2,730,592
Primary Government - General Fund	Component Unit - Community Television	450,000
Primary Government - General Fund	Component Unit - Revenue Authority	154,711
Primary Government - Internal Service Funds	Component Unit - Community College	606,383
Primary Government - Internal Service Funds	Component Unit - Memorial Library	426,925
Primary Government - Internal Service Funds	Component Unit - Board of Education	31,815,751
		<u>\$ 36,184,362</u>

The balance due to the General Fund from other funds is the result of temporary borrowing to cover cash deficits. The County's payables and receivables occasionally differ from its component units due to the timing differences in the transactions.

Interfund transfers for Primary Government as of June 30, 2006, are as follows:

Transfers From	Transfers To	Amount
General Fund	Federal and State Aided Programs	\$ 1,982,782
	Nonmajor Governmental Funds	66,242,175
	Capital Projects	43,203,000
	Internal Service Funds	16,175,000
		<u>\$ 127,602,957</u>
Nonmajor Governmental Funds	General Fund	<u>\$ 5,000,000</u>

The transfers from the General Fund to other funds represent payments to support grant programs, debt service, pay-go financing and the Computer Services Fund. Transfer to General Fund represents proceeds from property sales by nonmajor Governmental Funds used to finance contributions to Dimensions Health Corporation.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(6) Due From Other Governmental Units

The State owes the Primary Government \$81,899,997 for its share of income tax collections. The other Primary Government amounts are primarily grant-related receivables. A summary of amounts due from other governmental units at June 30, 2006 is listed below:

	State of Maryland	Federal Government	Other Sources	Total
Primary Government	\$ 104,735,397	21,103,996	3,523,325	129,362,718
Component Units:				
Board of Education	30,216,712	22,712,119	54,916,382	107,845,213
Other Component Units	2,797,945	1,606,150	1,266,856	5,670,951
Total	33,014,657	24,318,269	56,183,238	113,516,164
Total Reporting Entity	\$ 137,750,054	45,422,265	59,706,563	242,878,882

(7) Capital Assets

(a) Governmental Activities

Changes in capital assets during fiscal year 2006 were as follows:

	Balance July 1, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Primary Government:				
Capital assets, not being depreciated:				
Land	\$ 71,549,056	1,494,138	422,892	72,620,302
Construction in progress	99,658,248	19,857,281	43,302,176	76,213,353
Total capital assets, not being depreciated:	171,207,304	21,351,419	43,725,068	148,833,655
Capital assets, being depreciated:				
Buildings and improvements	283,342,944	3,942,270	-	287,285,214
Equipment	101,576,361	20,566,206	9,854,336	112,288,231
Infrastructure	2,090,376,297	87,167,198	382,289	2,177,161,206
Total capital assets, being depreciated:	2,475,295,602	111,675,674	10,236,625	2,576,734,651
Less accumulated depreciation for:				
Buildings and improvements	67,812,709	6,147,239	-	73,959,948
Equipment	72,526,291	10,741,698	9,653,781	73,614,208
Infrastructure	748,158,394	36,435,389	218,411	784,375,372
Total accumulated depreciation	888,497,394	53,324,326	9,872,192	931,949,528
Total capital assets being depreciated, net	1,586,798,208	58,351,348	364,433	1,644,785,123
Governmental activities capital assets	\$ 1,758,005,512	79,702,767	44,089,501	1,793,618,778

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Depreciation expense was charged to functions/programs of governmental activities as follows:

Governmental Activities:		
General government	\$	6,303,521
Public safety		6,398,392
Public works and transportation, including depreciation of general infrastructure assets		39,423,994
Health		387,995
Public Welfare		12,962
Capital assets being held by internal service funds are charged to the various functions based on their usage of the assets		797,462
Total depreciation expense - governmental activities	\$	<u>53,324,326</u>

Construction of capital assets in progress for the Primary Government at June 30, 2006, exclusive of Proprietary Fund assets and improvements not capitalized, is as follows:

	<u>Project No.</u>	Expended through <u>June 30, 2006</u>	Encumbered at <u>June 30, 2006</u>
Prince George's Courthouse	300173	\$ 13,894,290	253,707
Courthouse- Duvall Wing Rebuild	300273	5,421,792	1,792,153
Suitlan Road	664081	1,065,974	289,587
Amendale Virginia Manor Road III	664091	8,423,803	4,583,013
Oxon Hill Road	666681	1,884,235	790,696
Library projects	Various	173,835	11,415
Public safety projects	Various	1,157,153	300,021
Other road and bridge projects	Various	<u>44,192,271</u>	<u>6,621,944</u>
Total Primary Government		\$ <u>76,213,353</u>	<u>14,642,536</u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(b) Business-type Activities

Changes in capital assets during fiscal year 2006 were as follows:

	Balance July 1, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 12,516,407	-	-	12,516,407
Construction in progress	<u>96,475,331</u>	<u>11,756,454</u>	<u>4,402,435</u>	<u>103,829,350</u>
Total capital assets, not being depreciated:	<u>108,991,738</u>	<u>11,756,454</u>	<u>4,402,435</u>	<u>116,345,757</u>
Capital assets, being depreciated:				
Buildings and improvements	7,193,947	-	-	7,193,947
Equipment and vehicles	21,530,783	1,236,904	1,667,716	21,099,971
Landfill property in service	95,409,566	4,402,435	-	99,812,001
Stormwater property in service	<u>90,948,151</u>	<u>-</u>	<u>-</u>	<u>90,948,151</u>
Total capital assets being depreciated:	<u>215,082,447</u>	<u>5,639,339</u>	<u>1,667,716</u>	<u>219,054,070</u>
Less accumulated depreciation for:				
Buildings and improvements	4,810,535	262,003	-	5,072,538
Equipment and vehicles	13,674,180	629,833	243,903	14,060,110
Landfill property in service	76,612,834	-	8,436,838	68,175,996
Stormwater property in service	<u>29,942,313</u>	<u>2,255,982</u>	<u>-</u>	<u>32,198,295</u>
Total accumulated depreciation	<u>125,039,862</u>	<u>3,147,818</u>	<u>8,680,741</u>	<u>119,506,939</u>
Total capital assets being depreciated, net	<u>90,042,585</u>	<u>2,491,521</u>	<u>(7,013,025)</u>	<u>99,547,131</u>
Business-type activities capital assets	<u>\$ 199,034,323</u>	<u>14,247,975</u>	<u>(2,610,590)</u>	<u>215,892,888</u>

Depreciation expense was charged to functions / programs of the business-type activities as follows:

Solid Waste	\$ 843,748
Stormwater	<u>2,304,070</u>
Total depreciation expense - business-type activities	<u>\$ 3,147,818</u>

As of June 30, 2006, construction requisitions outstanding for proprietary funds of the Primary Government totaled \$8,384,474.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Changes in capital assets for the Stormwater Management Fund during 2006 were as follows :

	Balance July 1, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 8,431,440	-	-	8,431,440
Construction in progress	52,182,117	5,429,544	-	57,611,661
Total capital assets, not being depreciated:	<u>60,613,557</u>	<u>5,429,544</u>	<u>-</u>	<u>66,043,101</u>
Capital assets, being depreciated:				
Buildings and improvements	242,525	-	-	242,525
Equipment and vehicles	1,071,278	290,432	256,740	1,104,970
Stormwater property in service	90,948,151	-	-	90,948,151
Total capital assets being depreciated:	<u>92,261,954</u>	<u>290,432</u>	<u>256,740</u>	<u>92,295,646</u>
Less accumulated depreciation for:				
Buildings and improvements	151,983	9,701	-	161,684
Equipment and vehicles	960,379	38,387	243,903	754,863
Stormwater property in service	29,942,313	2,255,982	-	32,198,295
Total accumulated depreciation	<u>31,054,675</u>	<u>2,304,070</u>	<u>243,903</u>	<u>33,114,842</u>
Total capital assets being depreciated, net	<u>61,207,279</u>	<u>(2,013,638)</u>	<u>12,837</u>	<u>59,180,804</u>
Stormwater management capital assets	<u>\$ 121,820,836</u>	<u>3,415,906</u>	<u>12,837</u>	<u>125,223,905</u>

Changes in capital assets for the Solid Waste Fund during 2006 were as follows:

	Balance July 1, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 4,084,967	-	-	4,084,967
Construction in progress	44,293,214	6,326,910	4,402,435	46,217,689
Total capital assets, not being depreciated:	<u>48,378,181</u>	<u>6,326,910</u>	<u>4,402,435</u>	<u>50,302,656</u>
Capital assets, being depreciated:				
Buildings and improvements	6,951,422	-	-	6,951,422
Equipment and vehicles	20,459,505	946,472	1,410,976	19,995,001
Landfill property in service	95,409,566	4,402,435	-	99,812,001
Total capital assets being depreciated:	<u>122,820,493</u>	<u>5,348,907</u>	<u>1,410,976</u>	<u>126,758,424</u>
Less accumulated depreciation for:				
Buildings and improvements	4,658,552	252,302	-	4,910,854
Equipment and vehicles	12,713,801	591,446	-	13,305,247
Landfill property in service	76,612,834	-	8,436,838	68,175,996
Total accumulated depreciation	<u>93,985,187</u>	<u>843,748</u>	<u>8,436,838</u>	<u>86,392,097</u>
Total capital assets being depreciated, net	<u>28,835,306</u>	<u>4,505,159</u>	<u>(7,025,862)</u>	<u>40,366,327</u>
Solid Waste capital assets	<u>\$ 77,213,487</u>	<u>10,832,069</u>	<u>(2,623,427)</u>	<u>90,668,983</u>



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Construction in progress in the enterprise funds as of June 30, 2006 consists of the following:

Primary Government:

o Stormwater Management Enterprise Fund		
- Stormdrain Relief Program (540425)	\$	17,417,845
- Water Quality Control Facility (540465)		3,843,197
- Anacostia Retrofit (540855)		8,582,356
- 44th Avenue University Park (540915)		235,130
- Bond Default Fund (540925)		1,357,961
- Oxon Run Flood Control Structure (541265)		1,486,492
- Major Reconstruction – DPWT (541435)		7,102,482
- Municipal Storm Drain Program (541455)		544,818
- COE Anacostia Restoration (541685)		1,073,663
- Water Quality Plan Implementation (541805)		3,505,237
- Bladensburg Environmental Revitalization (541835)		7,963,927
- Other miscellaneous projects		4,498,553
	\$	<u>57,611,661</u>
o Solid Waste Enterprise Fund		
- Public Safety Training Facility (500653)	\$	479,723
- Brown Station Landfill Expansion (541113)		12,625,267
- Brown Station Landfill Buffer Zone (541123)		4,973,469
- Equipment Storage Facility (547715)		94,446
- Refuse and Recycling Drop -Off Facilities (548815)		356,081
- Abandoned Vehicle Lot Expansion (548835)		2,247,675
- Sandy Hill Landfill Expansion (548846)		10,134,971
- Solid Waste Recycling Facilities (548915)		15,255,408
- Commercial Manufacturer/Waste Transfer Station (548925)		50,649
		<u>46,217,689</u>
Total Primary Government	\$	<u>103,829,350</u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(c) Component Units Capital Assets Activity

Changes in Board of Education capital assets during fiscal year 2006 were as follows:

	Balance June 30, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 19,369,912	-	-	19,369,912
Construction in progress	167,971,028	78,197,628	101,983,071	144,185,585
Total capital assets, not being depreciated:	187,340,940	78,197,628	101,983,071	163,555,497
Capital assets, being depreciated:				
Buildings and improvements	872,858,756	102,763,513	-	975,622,269
Equipment and vehicles	123,264,642	13,012,647	1,170,155	135,107,134
Total capital assets, being depreciated:	996,123,398	115,776,160	1,170,155	1,110,729,403
Less accumulated depreciation for:				
Buildings and improvements	334,344,183	18,716,999	1,118	353,060,064
Equipment and vehicles	64,430,096	11,423,473	1,057,101	74,796,468
Total accumulated depreciation	398,774,279	30,140,472	1,058,219	427,856,532
Total capital assets being, depreciated, net	597,349,119	85,635,688	111,936	682,872,871
Component units - Board of Education capital assets	\$ 784,690,059	163,833,316	102,095,007	846,428,368

Changes in other component units capital assets during fiscal year 2006 were as follows:

	Balance June 30, 2005	Additions	Disposals and Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 31,790,002	20,721,757	1,314,169	51,197,590
Construction in progress	23,399,864	2,792,033	23,123,690	3,068,207
Total capital assets, not being depreciated:	55,189,866	23,513,790	24,437,859	54,265,797
Capital assets, being depreciated:				
Buildings and improvements	155,104,978	31,074,753	-	186,179,731
Equipment and vehicles	49,033,887	4,855,365	4,095,069	49,794,183
Total capital assets, being depreciated:	204,138,865	35,930,118	4,095,069	235,973,914
Less accumulated depreciation for:				
Buildings and improvements	53,477,717	4,077,566	-	57,555,283
Equipment and vehicles	34,684,848	5,640,449	3,998,716	36,326,581
Total accumulated depreciation	88,162,565	9,718,015	3,998,716	93,881,864
Total capital assets being, depreciated, net	115,976,300	26,212,103	96,353	142,092,050
Other component units capital assets	\$ 171,166,166	49,725,893	24,534,212	196,357,847

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(8) Risk Management

Details of estimated liabilities on pending claims, by fund, at June 30, 2006 are as follows:

	Risk Management <u>Pools</u>	Other <u>Self-Insurance</u>	<u>Total</u>
Primary Government:			
Internal Service Funds:			
Unemployment Compensation	\$ -	60,501	60,501
Property Loss	1,182,000	-	1,182,000
Automobile Liability	2,927,000	-	2,927,000
Worker's Compensation	72,045,000	-	72,045,000
General Liability	16,067,000	-	16,067,000
Life and Health Benefits	-	10,834,525	10,834,525
Total Primary Government	\$ <u>92,221,000</u>	<u>10,895,026</u>	<u>103,116,026</u>

The Primary Government, together with the Board of Education, the Board of Trustees for Prince George's Community College, and the Board of Trustees of Prince George's County Memorial Library are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County maintains various pooled risk management Internal Service Funds, (comprised of the above mentioned members) to account for and finance its uninsured losses. Under this program, the County is an approved self-insurer by the State of Maryland, and as such, is subject to provide coverage according to State mandatory limits of \$500,000 per injury. Property coverage is self-insured for \$250,000 per incident with excess insurance above this level provided by Travelers, which includes replacement values of both structures and contents. Liability coverage is self-insured. The County has a liability limit under the State Tort Claims Act of \$200,000 per person not to exceed \$500,000 per incident for all participants with the exception of the Board of Education, which retains immunity at \$100,000 per incident. These limits do not apply to claims brought under Federal jurisdiction. Excess liability coverage is provided by Travelers at the \$1,000,000 through \$5,000,000 levels for the Community College and the Library. Insurance coverage at June 30, 2006 is consistent with the prior year.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Participants of the risk management pools normally make contributions based upon prior experience with evaluations conducted annually by an actuary. In fiscal year 2006, the Primary Government made contributions amounting to \$27,085,127. The actuarially computed claims liability has been discounted at a rate of 5 percent, based on the pool's investment yield rate and current economic conditions.

The total claims liability of \$92,221,000 reported for the risk management pools at June 30, 2006 is based upon the requirements of GAAP, which requires that a liability for claims be recognized if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated, including claims incurred but not reported. The liability estimates are supported by an independent actuarial review made as of June 30, 2006. The funds do not utilize annuity contracts from commercial insurers; therefore, during this reporting period all known liabilities have been disclosed. Changes in the funds' claims liability amounts in fiscal years 2005 and 2006 were as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
Fiscal year 2005	\$70,026,922	52,536,267	(32,377,610)	90,185,579
Fiscal year 2006	\$90,185,579	39,802,814	(37,767,393)	92,221,000

The following is a summary of the fiscal year 2006 claims expenses by fund:

	Total Claim Payments	Liability on Pending Claims Adjustment	Total Claims Expenses
Property Loss Fund	\$ (18,602,285)	(828,000)	(19,430,285)
Auto Liability Fund	20,779,823	1,481,399	22,261,222
Worker's Compensation Fund	29,312,432	7,442,000	36,754,432
General Liability Fund	6,277,423	(6,059,978)	217,445
	<u>\$ 37,767,393</u>	<u>2,035,421</u>	<u>39,802,814</u>

The Primary Government maintains separate Internal Service Funds for unemployment compensation and life and health benefits. An independent actuary is not involved in evaluating contribution levels and estimated claims for the Unemployment Compensation or Life and Health Benefits Internal Service Funds. Changes in these funds claims liability amount in fiscal years 2005 and 2006 were as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
Fiscal year 2005	\$7,668,698	41,728,445	(39,489,001)	9,908,142
Fiscal year 2006	\$9,908,142	44,463,975	(43,477,091)	10,895,026

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(9) Pension Plans

(a) Primary Government

Employees of the Primary Government participate in the following pension plans:

The majority of employees participate in the statewide local government retirement system pension plan listed below. It is a cost-sharing, multiple-employer, defined benefit pension plan administered by the State Retirement and Pension System of Maryland (SRPS) [formerly Maryland State Retirement and Pension Systems (MSRPS)], in accordance with Article 73B of the annotated Code of Maryland.

- Employees Retirement and Pension System of Maryland

Public safety employees of the Primary Government may participate in the following single-employer, defined benefit pension plans:

- Police Pension Plan
- Fire Service Pension Plan
- Deputy Sheriffs' Comprehensive Pension Plan
- Correctional Officers' Comprehensive Pension Plan

Qualified employees can also supplement the State Retirement and Pension System plan with one of the following single-employer, defined benefit "Supplemental Plans":

- Deputy Sheriffs' Supplemental Pension Plan
- Correctional Officers' Association Supplemental Pension Plan
- AFSCME Local 241 (Crossing Guards) Supplemental Pension Plan
- AFSCME Local 2462, and 2735 Supplemental Pension Plan
- General Schedule Employees Supplemental Pension Plan
- Fire Civilian Supplemental Pension Plan
- Police Civilian Supplemental Pension Plan

(i) Plans Administered by the State Retirement and Pension System of Maryland (SRPS) - [Multiple-employer, Cost-sharing, Defined Benefit Pension Plans]

Qualified full-time and permanent part-time general service employees and officers of the Primary Government participate in the statewide Retirement System or Pension System plans administered by the SRPS. Effective June 1, 1984, employees who were members of a Retirement System on December 31, 1979, could elect to join a Pension System or remain in a Retirement System. All employees hired on or after January 1, 1980, are required to join the Pension System. All SRPS plans have provisions for early retirement, death, and disability benefits.

Article 73B of the Annotated Code of Maryland assigns the authority to establish and amend benefit and contribution provisions to SRPS' Board of Trustees. SRPS issues a publicly available financial report that includes financial statements and required supplementary information on the Plans. Requests for copies of annual financial reports should be addressed to SRPS' administrative offices located at 301 West Preston Street, Fourth Floor, Baltimore, Maryland 21201, or can be made by telephoning (410) 767-4030 or 1-800-492-5909.

Participants of the Pension System plan contribute 5% of earnings above the Social Security wage base and may retire with full benefits after 30 years of service regardless of age or at age 62 or older with specified years of service. Retirement benefits are based on the participant's highest average annual compensation during any 3 consecutive years of credited service.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Participants of the Retirement System plan contribute 7% of annual compensation and upon retirement are entitled to unlimited cost-of-living adjustments, or contribute 5% of annual compensation and upon retiring are limited to 5% cost-of living increases annually. Retirement System participants may retire with full benefits after attaining age 60, or after completing 30 years of service, regardless of age. Annual retirement benefits are equal to 1/55 of the average of the participant's three highest years of annual compensation, multiplied by the number of years of credited service.

As referenced below, the Primary Government made the actuarially required contributions for the indicated fiscal years.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Actuarial contribution requirement	\$ 10,384,012	10,135,060	6,342,671

(ii) Police, Fire Service, Deputy Sheriff's, Correctional Officers', and Supplemental Pension Plans [Single-Employer, Defined Benefit Pension Plans]

Plan Descriptions

The Primary Government has adopted the Police Pension Plan, Fire Service Pension Plan, Deputy Sheriff's Comprehensive Pension Plan, Correctional Officers' Comprehensive Pension Plan, Deputy Sheriff's Supplemental Pension Plan, Correctional Officers' Association Supplemental Pension Plan, AFSCME Local 241 (Crossing Guards) Supplemental Pension Plan, AFSCME Locals 1691, 2462, and 2735 Supplemental Pension Plan, General Schedule Employees Supplemental Pension Plan, Fire Civilian Supplemental Pension Plan, and Police Civilian Supplemental Pension Plan. The Plans provide retirement and disability benefits for all full-time employees. Administrative, investment, and member benefit service responsibilities are provided by a separate Board of Trustees for each Plan. Such Trustees have the authority to amend benefit provisions and contribution requirements. Currently, each Plan has the same Retirement Administrator, who is an employee of the Primary Government.

Normal retirement is at age 55 or after 20 years of service for police officers, firefighters paramedics, deputy sheriffs and correctional officers under the Comprehensive Plans. For AFSCME Local 241 (Crossing Guards), AFSCME Locals 1691, 2462, and 2735, general schedule employees, and deputy sheriff's under the supplemental plan, normal retirement age is the earliest of age 62 with 5 years of service, age 55 with 15 years of service, any age with 30 years of service, or 25 years of service for deputy sheriff's. For correctional officers under the supplemental plan, normal retirement is the earliest of age 60 or 25 years of County service. Retirement benefits are calculated as a percentage of average compensation, with such percentage determined by length of credited service up to a maximum of 85% for 30 years of service for police officers, firefighters, paramedics, deputy sheriffs, and correctional officers under the Comprehensive Plans. For general schedule and fire civilian employees, the maximum retirement benefit is 30% for 30 years of service, 20% for 25 years of service for AFSCME Locals 1691, 2462, and 2735, 24% for 30 years of service for police civilian employees, 22.5% for 30 years of service for AFSCME Local 241 (crossing guards), 36% for 30 years of service for deputy sheriff's, and 38.75% for 30 years of service for correctional officers under the Supplemental Plans.

The Plans are classified by the Primary Government as Pension Trust Funds and separate financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which employee services are performed and expenses, benefits, and refunds are recognized when corresponding liabilities are incurred, regardless of when payment is made. Investments of the pension funds, represented by equity in pooled pension trust funds and cash and investments are carried at market value (or at a fair value when a quoted market value is not available) as reported by the investment managers. Complete separate financial statements may be obtained at the following address: Prince George's County Office of Personnel, 1400 McCormick Drive, Room 110, Largo, Maryland 20774.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Funding Policy

Contributions to the Plans for 2006 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2004. The Primary Government's fiscal year 2006 total payroll was \$ 405,409,191. Employee contribution rates are determined by collective-bargaining agreements or by the Board of Trustees for each Plan. Participant contributions are included in the plan assets and are 100% vested with the employee. Upon termination of employment, a participant may elect to receive a refund of contribution; if there has been at least five years of credited service, the participant may instead elect a retirement annuity upon attaining retirement age. Participants begin vesting in employer contributions after 5 years of credited service.

The contribution rates as a percentage of covered payrolls during fiscal year 2006 were as follows:

July 1, 2005 to June 30, 2006						
		Employee		Employer		Covered
		<u>Rates</u>		<u>Rates</u>		<u>Payroll</u>
Comprehensive Plans:						
Police	5.50	%	35.70	%	\$72,575,127	
Fire Service	4.00		37.60		40,842,859	
Deputy Sheriff's	10.00		36.59		7,748,144	
Correctional Officers'	12.70		20.10		17,102,852	
Supplemental Plans:						
Deputy Sheriff's	5.20		10.52		1,364,377	
Correctional Officers'	5.30		6.95		2,041,345	
Crossing Guards	3.10		4.69		1,513,220	
AFSCME	2.03		4.51		22,629,673	
General Schedule	3.29		6.86		82,390,440	
Fire Civilian	3.89		8.29		3,538,183	
Police Civilian	3.76		5.98		10,522,975	

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Actuarially Determined Contribution Requirements

The significant assumptions used to compute the actuarially determined contribution requirements are as follows:

						Actuarial assumptions			
	Actuarial Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Asset Valuation Method	Investment Rate of Return	Projected Salary Increases	Inflation	Cost of living increases
Comprehensive Plans:									
Police	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 8%	5%	investment returns in excess of 8% (not to exceed \$125 per month)
Fire Service	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 10%	5%	investment returns in excess of 8% (not to exceed \$125 per month)
Deputy Sheriff's	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 8%	5%	investment returns in excess of 8% (not to exceed \$100 per month)
Correctional Officers'	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 8%	5%	investment returns in excess of 8% (not to exceed \$100 per month)
Supplemental Plans:									
Deputy Sheriff's	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 8%	5%	none
Correctional Officers'	07/01/2004	Entry age	Level percent, open	30 years	5-year smoothed market	8%	3.5% thru 8%	5%	none
Crossing Guards	07/01/2004	Entry age	Level percent, open	18 years	5-year smoothed market	8%	3.5% thru 8%	5%	none
AFSCME	07/01/2004	Entry age	Level percent, open	18 years	5-year smoothed market	8%	5% thru 8%	5%	none
General Schedule	07/01/2004	Entry age	Level percent, open	18 years	5-year smoothed market	8%	5% thru 8.5%	5%	none
Fire Civilian	07/01/2004	Entry age	Level percent, open	18 years	5-year smoothed market	8%	5% thru 8.5%	5%	none
Police Civilian	07/01/2004	Entry age	Level percent, open	18 years	5-year smoothed market	8%	5% thru 8.5%	5%	none



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Annual Pension Costs

Annual pension costs (APC) are the actuarially required employer contribution to the pension plans. The net pension obligation (NPO) represents the difference between the APC and the actual employer contributions. The APC for the Police and Fire Service Pension Plans was \$46.4 million for fiscal year 2006. Based on recommendations from the County's actuary, the actual employer contribution for fiscal year 2006 was \$46.1 million. The resulting NPO of \$.3 million along with the \$12.6 million NPO from fiscal year 2005, results in a total NPO at the end of the year of \$12.9 million. Three-year trend information for Comprehensive Pension Plans is presented below (in thousands):

	Year Ended	NPO beginning	Annual Pension Cost (APC)					NPO End	Percentage of
	<u>June 30</u>	<u>of year</u>	<u>ARC</u>	<u>Interest</u>	<u>Adjustment</u>	<u>Total</u>	<u>Decrease in NPO</u>	<u>of year</u>	<u>APC Contributed</u>
Comprehensive Pension Plans:									
Police	2006	\$ 11,216	30,146	897	(684)	30,359	(30,146)	11,429	99%
	2005	11,007	21,053	881	(672)	21,262	(21,053)	11,216	99%
	2004	10,802	17,872	864	(659)	18,077	(17,872)	11,007	99
Fire Service	2006	1,407	15,971	113	(86)	15,998	(15,970)	1,435	100
	2005	1,380	12,801	111	(84)	12,828	(12,801)	1,407	100
	2004	1,355	10,381	108	(83)	10,406	(10,381)	1,380	100
Deputy Sheriff's	2006	-	3,208	-	-	3,208	-	-	100
	2005	-	1,803	-	-	1,803	-	-	100
	2004	-	1,123	-	-	1,123	-	-	100
Correctional Officers'	2006	-	3,902	-	-	3,902	-	-	100
	2005	-	3,100	-	-	3,100	-	-	100
	2004	-	2,689	-	-	2,689	-	-	100

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

Annual Pension Costs (continued)

Three-year trend information for Supplemental Pension Plans is presented below (in thousands):

	Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
Supplemental Pension Plans:				
Deputy Sheriff's	2006	\$ 121	100 %	-
	2005	69	100	-
	2004	48	100	-
Correctional Officers'	2006	139	100	-
	2005	93	100	-
	2004	71	100	-
Crossing Guards	2006	71	100	-
	2005	67	100	-
	2004	68	100	-
AFSCME	2006	1,075	100	-
	2005	1,083	100	-
	2004	1,046	100	-
General Schedule	2006	6,151	100	-
	2005	5,699	100	-
	2004	5,587	100	-
Fire Civilian	2006	304	100	-
	2005	286	100	-
	2004	293	100	-
Police Civilian	2006	740	100	-
	2005	610	100	-
	2004	523	100	-

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(b) Component Units

Generally, all employees of the Board of Education, the Housing Authority, the Community College, the Memorial Library, and certain employees of the PGCT participate in one of the statewide Employee's Retirement and Pension Systems or Teacher's Retirement and Pension Systems. Information covering the Housing Authority and PGCT is included with the Primary Government because those individuals are also employees of the Primary Government. Separate financial statements prepared for the Board of Education, Memorial Library, and Community College, are available to the general public [see note 1(a)], and reflect detailed information relevant to their participation in SRPS. Review of these financial statements indicates the Component Units individually met the actuarially determined contribution requirements for fiscal years 2006, 2005, and 2004.

The State of Maryland is required to contribute certain amounts to the Teacher's Retirement and Pension Systems on behalf of the Board of Education, Community College, and Memorial Library. Such contributions, made by the State on behalf of these Component Units during fiscal year 2006 amounted to \$56,793,155, \$2,195,908 and \$984,426, respectively, are reflected in the Component Units' financial statements.

In addition to the statewide plans mentioned above, the Community College also offers to its employees four single-employer, defined contribution pension plans. The State of Maryland made "on behalf" employer contributions totaling \$655,616 to these plans during fiscal year 2006. The Revenue Authority established a single-employer, defined contribution pension plan for its employees, on July 1, 1987. Detailed information concerning these plans may also be obtained from the separately issued financial reports of these Component Units.

(c) Postemployment Benefits Other Than Pensions

In addition to providing pension plan benefits, the County also extends certain health care and life insurance benefits to retired persons. The legal authority for providing these benefits is established by the County Council; Executive Orders 42-1980 and 43A-1980, "Continuation of Life and Health Benefits at Retirement," and certain collective bargaining agreements form the legal basis for providing such benefits to retirees of the Primary Government. The County's cost, which in fiscal year 2006 totaled approximately \$18.0 million for 3,179 retirees, is recognized as an expense concurrent with payment of premiums and claims. Post-retirement insurance benefits are accounted for in the Primary Government's Life and Health Benefits (self-insurance) Internal Service Fund. Retirees have no vested rights to these benefits, which are subject to modification during the budgetary process or by collective bargaining agreement. A description of the types of benefits and eligibility requirements is summarized below:

Medical Insurance

- All State Retirement and Pension System of Maryland, Police, Fire Service, Correctional Officers' Comprehensive, and Deputy Sheriffs' Comprehensive Pension Plan retirees who are enrolled in a qualified plan at the time of retirement may continue this benefit.

Life Insurance

- Reduced coverage is available to all State Retirement and Pension System of Maryland, Police, Fire Service, Correctional Officers' Comprehensive, and Deputy Sheriffs' Comprehensive Pension Plan retirees.

Vision Care and Prescription Drug Insurance

- The County pays premium costs of this benefit for Police, Fire Service, Correctional Officers' Comprehensive, and Deputy Sheriffs' Comprehensive Plan retirees. State Retirement and Pension System of Maryland retirees pay 100% of the monthly cost for vision care and 75% for prescription insurance. The County pays the remaining 25% of prescription coverage.

The County is required to implement Governmental Accounting Standards Board Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" for fiscal year 2008. The County designated \$25 million of General Fund balance in the fiscal year 2006.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(d) Other Benefits - LOSAP

In 1974, the County created the Length of Service Awards Program (LOSAP). LOSAP provides 401 annuities to former volunteer members of the County's fire companies or rescue squads who met certain age and service criteria. Benefits totaling \$1,388,814 in fiscal year 2006 also include survivor annuities and lump-sum death benefits and are reported in the Primary Government's General Fund, on a "pay-as-you-go" basis. The most recent actuarial review was performed as of July 1, 1997. If the County were to implement an advance funding program, the estimated contribution beginning with fiscal year 1998 would be approximately \$1.5 million. The unfunded liability of approximately \$18 million as of July 1, 1997, was projected to be funded over 30 years.

(10) Deferred Compensation Plans

The County offers its employees various Deferred Compensation Plans, which have been created in accordance with Internal Revenue Code Section 457. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All assets and income deferred by County plan participants are held in trust for the exclusive benefit of the participants and their beneficiaries and are not reflected in the accompanying financial statements.

(11) Deferred Revenue

Deferred revenue reported in the General and other Governmental Funds represents tax billings and other receivables not available at June 30, 2006 for funding of current operations. Deferred revenue in the Federal and State Aided Programs Fund represents the unexpended portion of funds received for various grants and unrealized revenue relating to notes receivable arising from the sale of property. The Enterprise Funds' deferred revenue represents billings or receipts for future services collected in advance. Deferred revenue in the Internal Service funds is a combination of premiums paid in advance for life and health benefits, and accumulated premium contributions of component units in excess of related risk management expenses.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(12) Bonded Debt

(a) Outstanding Long-term Liabilities

The following is a summary of all primary government outstanding long-term liabilities as of June 30, 2006:

	Governmental activities		Business-type activities		Total		
	Amounts Due Within One Year	Amounts Due in More Than One Year	Amounts Due Within One Year	Amounts Due in More Than One Year	Amounts Due Within One Year	Amounts Due in More Than One Year	Total
Bonds payable							
General obligation bonds	\$ 55,165,000	876,796,579	4,781,102	70,445,000	59,946,102	947,241,579	1,007,187,681
Revenue bonds	-	-	4,337,030	21,247,303	4,337,030	21,247,303	25,584,333
Bond premium	-	45,261,408	-	4,281,912	-	49,543,320	49,543,320
Less deferred amounts	-	(18,574,639)	-	(974,009)	-	(19,548,648)	(19,548,648)
Total bonds payable	<u>55,165,000</u>	<u>903,483,348</u>	<u>9,118,132</u>	<u>95,000,206</u>	<u>64,283,132</u>	<u>998,483,554</u>	<u>1,062,766,686</u>
Notes payable	9,960,620	64,413,426	796,504	3,076,263	10,757,124	67,489,689	78,246,813
Estimated liabilities on pending claims	35,287,636	67,828,390	-	-	35,287,636	67,828,390	103,116,026
Compensated absences and termination benefits payable	36,672,404	37,324,211	2,395,937	133,252	39,068,341	37,457,463	76,525,804
Pension obligations	-	12,862,612	-	-	-	12,862,612	12,862,612
Landfill closure / postclosure	-	-	4,122,251	56,837,605	4,122,251	56,837,605	60,959,856
Other long-term liabilities	<u>81,920,660</u>	<u>182,428,639</u>	<u>7,314,692</u>	<u>60,047,120</u>	<u>89,235,352</u>	<u>242,475,759</u>	<u>331,711,111</u>
Total long-term liabilities	<u>\$ 137,085,660</u>	<u>1,085,911,987</u>	<u>16,432,824</u>	<u>155,047,326</u>	<u>153,518,484</u>	<u>1,240,959,313</u>	<u>1,394,477,797</u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(b) Bonded Debt Transactions

The following is a summary of bonded debt transactions of the County for the fiscal year ended June 30, 2006:

		Primary Government				
		<u>Governmental Activities</u>	<u>Business-type Activities</u>			
			<u>Solid Waste</u>	<u>Stormwater Management</u>	<u>Total</u>	Component Units
						<u>Total</u>
Bonded debt at July 1, 2005	\$	753,818,759	61,897,552	39,746,749	855,463,060	59,935,883
Debt issued		224,750,000	2,850,000	5,403,879	233,003,879	-
Debt retired		<u>(46,607,180)</u>	<u>(6,548,219)</u>	<u>(2,539,526)</u>	<u>(55,694,925)</u>	<u>(2,703,105)</u>
Bonded debt (including current portion)						
As of June 30, 2006		931,961,579	58,199,333	42,611,102	1,032,772,014	57,232,778
Less current portion		<u>(55,165,000)</u>	<u>(6,623,132)</u>	<u>(2,495,000)</u>	<u>(64,283,132)</u>	<u>(2,707,868)</u>
Bonded debt as of June 30, 2006	\$	<u>876,796,579</u>	<u>51,576,201</u>	<u>40,116,102</u>	<u>968,488,882</u>	<u>54,524,910</u>

(c) Debt Service Requirements

The annual requirements to amortize all bonded debt outstanding as of June 30, 2006 are as follows:

Primary Government											
Governmental Activities			Business-type Activities								
			Solid Waste		Stormwater Management		Component Units				Total
Year ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total	Principal	Interest		
2007	\$ 55,165,000	42,380,983	6,623,132	2,506,484	2,496,102	1,900,403	111,072,104	2,707,868	4,513,516	118,293,488	
2008	56,955,125	43,842,484	6,783,391	2,290,513	2,665,000	1,795,987	114,332,500	2,741,618	4,489,257	121,563,375	
2009	59,040,809	41,039,763	6,669,010	1,939,866	2,855,000	1,659,273	113,203,721	2,514,034	4,458,237	120,175,992	
2010	60,385,645	38,295,808	6,830,000	1,604,954	3,070,000	1,508,672	111,695,079	2,542,842	4,431,885	118,669,806	
2011	65,080,000	31,739,062	3,861,375	1,263,454	3,250,000	1,376,188	106,570,079	1,532,067	4,420,170	112,522,316	
2012 - 2016	295,875,000	112,558,501	19,877,425	3,711,102	12,730,000	5,086,078	449,838,106	18,084,349	11,657,314	479,579,769	
2017 – 2021	227,695,000	50,026,409	4,845,000	1,112,535	9,900,000	2,558,719	296,137,663	16,620,000	4,281,066	317,038,729	
2022 - 2026	109,355,000	9,378,277	2,710,000	270,100	5,415,000	561,527	127,689,904	5,445,000	1,965,626	135,100,530	
2027 - 2030	2,410,000	54,225			230,000	5,175	2,699,400	5,045,000	612,988	8,357,388	
	\$ 931,961,579	369,315,512	58,199,333	14,699,008	42,611,102	16,452,022	1,433,238,556	57,232,778	40,830,059	1,531,301,393	

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(d) Bonded Debt Details

Details of the County's long-term bonded debt at June 30, 2006 are as follows:

<u>Primary Government:</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Governmental Activities:				
General obligation bonds:				
1977, 1991-2004, 2004A-F, 2005-2006 consolidated public improv	2.00 - 7.05%	2027	\$ 1,480,363,759	923,111,579
1992 self-insurance liability funding	5.00 - 6.05%	2012	18,500,000	8,850,000
Total governmental activities long-term bonded debt			<u>\$ 1,498,863,759</u>	<u>931,961,579</u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

<u>Business-type Activities:</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1993, 1997, 1999, 2000, 2000B, 2001, 2003, 2004, 2005 and 2006 stormwater management - general obligation	2.50 - 6.50%	2027	\$ 68,979,190	42,611,102
1995, 1996, 1998, 2000A, 2001, 2002, 2003B, 2004, 2004A-F, and 2005 solid waste management system - general obligation	2.00 - 6.25%	2026	70,045,000	32,615,000
1993 - 1994, 2000 and 2003 solid waste management system - revenue bonds	2.50 - 6.50%	2015	103,767,386	25,584,333
Total business-type activities bonded debt			<u>242,791,576</u>	<u>100,810,435</u>
Total primary government long-term bonded debt			<u>1,741,655,335</u>	<u>1,032,772,014</u>
Component units:				
Revenue bonds:				
Housing Authority - Capital Fund Securitization Revenue Bonds	2.0 - 4.55%	2023	1,465,000	1,410,000
Industrial Development Authority -				
1989 building construction	6.80 - 6.95%	2012	8,460,825	4,352,778
1994A lease revenue	5.00 - 6.00%	2009	9,985,000	3,655,000
1999 refunding lease revenue	4.50%	2008	1,870,000	485,000
2003A refunding lease revenue	2.0 - 5.125%	2019	27,430,000	26,755,000
2003B subordinated lease revenue	2.0 - 4.75%	2030	<u>22,085,000</u>	<u>20,575,000</u>
Total component units revenue bonds			<u>71,295,825</u>	<u>57,232,778</u>



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(e) Bond Authorizations

The County Charter requires that any borrowing to finance capital projects must be authorized by an enabling act of the General Assembly of Maryland or by an enabling act of the County Council. The County Council is required by the Charter to submit to voter referendum any act enabling the County to borrow money to finance capital projects, except for school construction bonds. In addition, the County Council is required by the Charter to adopt a bond authorization act before bonds may be issued. The amount of bonds enabled and authorized but not yet issued at June 30, 2006 is summarized as follows:

	<u>Enabled Amount</u>	<u>Authorized and Unissued amount</u>
Enabled by authority of the State of Maryland:		
Schools	\$ 11,530,000	-
Washington Suburban Transit Commission	<u>15,746,000</u>	<u>-</u>
	<u>27,276,000</u>	<u>-</u>
Enabled by authority of Prince George's County:		
Parks and recreation	4,109,000	-
Health and solid waste	19,077,000	19,286,000
Roads, parking and mass transit	37,122,000	45,452,000
Hospitals	24,975,000	-
Public buildings	14,841,000	6,188,000
Public Safety	<u>64,937,000</u>	<u>14,520,000</u>
	<u>165,061,000</u>	<u>85,446,000</u>
	<u>\$ 192,337,000</u>	<u>85,446,000</u>

The legal debt limit and margin at June 30, 2006 were \$3,956,000,726 and \$3,057,183,350, respectively. The County was in compliance with all significant bond covenants at June 30, 2006.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(f) Prior Period Defeasance of Debt

In prior periods, the County defeased or participated in the defeasance of certain long-term bonded debt. The proceeds of new bonds were placed in an irrevocable trust to provide for future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the County's financial statements. A general description of the defeased debt and the amounts outstanding at June 30, 2006 follows:

- On August 3, 2000, the Primary Government issued \$1,790,000 of Solid Waste Management System Taxable Revenue Refunding Bonds, Series 2000, dated August 3, 2000 to advance refund \$1,720,000 of certain selected callable maturities of the County's Solid Waste Revenue Bonds, Series 1993. At June 30, 2006, \$1,685,000 of the refunded bonds outstanding that matures in the year 2007 are considered defeased.
- On August 3, 2000, the Primary Government issued \$6,365,000 of Water Quality Refunding Bonds, Series 2000A, dated August 3, 2000 to advance refund \$5,930,000 of certain selected callable maturities of the County's (i) Consolidated Public Improvement Bonds, Series 1995, dated May 1, 1995, and (ii) Consolidated Public Improvement Bonds, Series 1996, dated May 15, 1996. At June 30, 2006, \$5,930,000 of the refunded bonds outstanding that mature in the years 2013 through 2016 are considered defeased.
- On August 3, 2000, the Primary Government issued \$8,370,000 of Water Quality Refunding Bonds, Series 2000B, dated August 3, 2000 to advance refund 7,770,000 of certain selected callable maturities of the County's (i) General Obligation Stormwater Management Bonds, Series 1993, dated February 1, 1993, and (ii) Unlimited Tax General Obligation Stormwater Management Bonds, Series 1997, dated June 15, 1997. At June 30, 2006, \$7,770,000 of the refunded bonds outstanding that mature in the years 2010 through 2017 are considered defeased.
- On June 4, 2002, the Primary Government issued \$79,845,000 of General Obligation Consolidated Public Improvement Bonds, 2002 Refunding Series, dated May 15, 2002 (a) to currently refund \$51,265,000 of certain callable maturities of the County's (i) General Obligation Consolidated Public Improvement Bonds – 1991 Refunding Series, dated June 15, 1991, (ii) General Obligation Consolidated Public Improvement Bonds, Series 1992, dated January 15, 1992, (iii) General Obligation Consolidated Public Improvement Bonds – 1992A Refunding Series, dated November 15, 1992 and (b) to advance refund \$29,510,000 of certain callable maturities of the County's (i) General Obligation Consolidated Public Improvement Bonds, Series 1993, dated January 15, 1993 and (ii) General Obligation Stormwater Management Bonds, Series 1993, dated February 1, 1993. Of the \$29,510,000 advance refunded Bonds, \$9,010,000 are the Bonds of the Stormwater Enterprise Fund. The remaining \$71,765,000 Refunded Bonds relate to governmental activities. At June 30, 2006, \$40,710,000 of the outstanding Refunded Bonds, that mature in the years 2007 through 2013, are considered defeased.
- On July 15, 2003, the Primary Government issued \$90,585,000 of General Obligation Public Improvement Refunding Bonds, Series 2003B, dated June 15, 2003 to advance refund \$94,935,000 of certain maturities of the County's (i) General Obligation Consolidated Public Improvement Bonds, Series 1994, dated January 15, 1994, (ii) General Obligation Consolidated Public Improvement Bonds, Series 1995, dated May 1, 1995, (iii) General Obligation Consolidated Public Improvement Bonds, Series 1996, dated May 15, 1996, (iv) General Obligation Consolidated Public Improvement Bonds, Series 1997A, dated June 15, 1997. Of the \$94,935,000 advance refunded bonds, \$7,785,000 is the bonds of the Solid Waste Enterprise Fund. The remaining \$87,150,000 refunded bonds relate to governmental activities. The net refunding bonds proceeds of \$102,948,094 were escrowed for purchase of Escrow Securities, together with interest earnings and cash on hand to pay the principal, interest and early redemption premium on all refunded bonds referenced above. At June 30, 2006, \$88,935,000 of the outstanding refunded bonds that mature in the years 2007 through 2017 are considered defeased.
- On December 10, 2003, the County issued \$31,955,000 of Solid Waste Management System refunding Revenue Bonds, Series 2003, dated December 10, 2003. The bonds were issued by the County (i) to provide a portion of the funds needed to currently refund the County's \$34,765,000 of outstanding Solid Waste Management System Revenue Bonds, Series 1993 in whole, and (ii) to pay costs of issuance. The refunding was designed to restructure debt to effect a reduction in overall debt service of \$5,396,421 and to net economic present value debt service savings of \$4,704,305. At June 30, 2006, \$23,345,000 of the outstanding refunded bonds that mature in the years 2007 through 2013 are considered defeased.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

- On December 15, 2004, the Primary Government issued \$141,130,000 of General Obligation Public Improvement Bonds, 2004 Refunding Series A, B, C, D, E and F, dated December 1, 2004 to advance refund certain portions of the County's (i) General Obligation Consolidated Public Improvement Bonds, Series 1996 (ii) General Obligation Public Improvement Bonds, Series 1997A, (iii) General Obligation Public Improvement Bonds, Series 1998, (iv) General Obligation Public Improvement Bonds, Series 1999, (v) General Obligation Public Improvement Bonds, Series 2000, and (vi) General Obligation Public Improvement Bonds, Series 2001. Of the \$141,170,000 advance refunded bonds, \$8,490,000 is the bonds of the Solid Waste Enterprise Funds. The remaining \$132,680,000 Refunded Bonds relate to governmental activities. The net refunding Bonds proceeds of \$153,036,134 were escrowed for purchase of Escrow Securities, together with interest earnings to pay the principal, interest, and early redemption premium on all refunded bonds referenced above. At June 30, 2006, \$141,170,000 of the refunded bonds outstanding that mature in the years 2007 through 2017 are considered defeased.

(13) Conduit Debt Transactions

The County encourages private industry to locate and remain in the County by, among other things, the issuance of tax exempt Economic Development Revenue Bonds, which bear the County's name and benefit the private enterprise. The funds provided from the sale of such debt are used for the public interest, such as for hospital construction or expansion of private businesses to increase employment and the County's tax base. These bonds do not constitute indebtedness or a charge against the general credit or taxing power of the County. The bond indentures explicitly state the absence of any legal obligation by the County to repay the indebtedness. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2006, there were one hundred and seventy-one series of Economic Development Revenue Bonds outstanding. The aggregate principal amount, for the three series issued after July 1, 1995 that remain outstanding, is \$10.8 million. The aggregate principal amount payable on June 30, 2006 for the one hundred and sixty-eight issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled approximately \$1.1 billion.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(14) Other Long-term and Short-term Debt

The following represents the changes in other long-term liabilities for governmental activities:

	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2006</u>
Pension obligations	\$ 12,622,951	239,661	-	12,862,612
Compensated absences and termination benefits payable	72,320,703	38,348,316	36,672,404	73,996,615
Estimated liabilities on pending claims and judgements	100,093,721	83,897,044	80,874,739	103,116,026
Notes payable:				
Purchase agreements and certificates of participation	63,811,799	-	7,925,378	55,886,421
MILA loans	327,139	-	20,030	307,109
Maryland Department of Transportation loans:				
FedEx Field (formerly JKC Stadium) loan	5,249,520	-	739,625	4,509,895
Parking garage loan	1,523,688	-	211,667	1,312,021
HUD Section 108 notes				
Eastover	4,115,000	-	245,000	3,870,000
Commercial Building Loan Fund	7,830,000	-	245,000	7,585,000
Maryland CDA Infrastructure Financing	953,400	-	49,800	903,600
Total notes payable	<u>83,810,546</u>	<u>-</u>	<u>9,436,500</u>	<u>74,374,046</u>
	<u>\$ 268,847,921</u>	<u>122,485,021</u>	<u>126,983,643</u>	<u>264,349,299</u>

The following represents the changes in other long-term liabilities for business-type activities:

	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2006</u>
Compensated absences and termination benefits payable	2,687,726	-	158,537	2,529,189
Landfill closure / postclosure costs	61,831,597	-	871,741	60,959,856
Capital lease	84,525	-	84,525	-
Notes payable:				
Purchase agreements and certificates of participation	1,248,654	54,406	85,293	1,217,767
WSSC Loans	<u>3,245,000</u>	<u>-</u>	<u>590,000</u>	<u>2,655,000</u>
Total notes payable	<u>4,493,654</u>	<u>54,406</u>	<u>675,293</u>	<u>3,872,767</u>
	<u>\$ 69,097,502</u>	<u>54,406</u>	<u>1,790,096</u>	<u>67,361,812</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above for governmental activities. At year-end, \$1,398,313 (\$949,281 within one year, and \$449,032 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

a) Pension Obligations

The liability for pension obligations represents the difference between the actuarially required and the actual employer pension contribution. The balance as of June 30, 2006 was \$12,862,612 (see note 9 – Pension Plans).

b) Compensated Absences and Termination Benefits

County employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation in full, and for sick leave in varying amounts based on years of service. Participants in the plans administered by the State Retirement and Pension System of Maryland may apply accrued sick leave as service credits toward retirement.

Vested or accumulated vacation and sick leave that relates to employees who terminated employment with the County on or before June 30, 2006, are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation and sick leave that do not meet the above criteria are not reported in the governmental funds.

For purposes of reporting in the County's government-wide financial statements and the proprietary fund financial statements, vested or accumulated vacation and sick leave are recognized as an expense and liability as the benefits accrue to employees. Current amounts are such amounts expected to be paid within one year.

The liability includes an accrual at the current rate for ancillary salary-related payments (i.e., employer's share of Social Security and Medicare taxes) associated with its ultimate liquidation.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

The following is a summary of compensated absences and termination benefits payable at June 30, 2006 (in thousands):

	Primary Government					
	Governmental Activities	Business-type Activities			Component Units	Total
		<u>Solid Waste</u>	<u>Stormwater Management</u>	<u>Total</u>		
Primary Government	\$ 73,997	889	1,640	76,526	-	76,526
Component Units:						
Board of Education	-	-	-	-	64,264	64,264
Housing Authority	-	-	-	-	758	758
Memorial Library	-	-	-	-	2,334	2,334
Community College	-	-	-	-	1,006	1,006
	<u>73,997</u>	<u>889</u>	<u>1,640</u>	<u>76,526</u>	<u>68,362</u>	<u>144,888</u>
Less current portion	<u>36,672</u>	<u>889</u>	<u>1,507</u>	<u>39,068</u>	<u>3,585</u>	<u>42,653</u>
Total long-term portion	\$ <u><u>37,325</u></u>	<u><u>-</u></u>	<u><u>133</u></u>	<u><u>37,458</u></u>	<u><u>64,777</u></u>	<u><u>102,235</u></u>

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

c) Notes Payable

(i) Purchase Agreement and Certificates of Participation Notes Payable

The County has entered into certain financing/purchasing agreements for the purpose of acquiring real estate, equipment, textbooks, vehicles, and school buses. Under these agreements, the financing amounts are deposited with a fiscal escrow agent who will pay the vendors as the County takes delivery of the assets. The County makes periodic loan repayments directly to the lender over a specified period of time.

The interest rates on all financing/purchasing agreements in force range from 3.5% to 6.5%. The liability for the debt is carried as a note payable in various funds as listed below. Following is a schedule by year of future principal and interest payments as of June 30, 2006 (in thousands):

Primary Government										
Year ending June 30,	Governmental Activities		Business-type Activities				Total	Component Units		
	Principal	Interest	Solid Waste		Stormwater Management			Principal	Interest	Total
			Principal	Interest	Principal	Interest				
2007	\$ 8,290	3,601	141	35	64	16	12,147	23,364	2,366	37,877
2008	8,803	3,378	154	30	67	14	12,446	22,134	1,939	36,519
2009	9,068	3,078	159	22	71	11	12,409	21,197	1,224	34,830
2010	9,393	2,741	168	15	74	7	12,398	11,336	519	24,253
2011	9,776	2,368	176	6	78	3	12,407	2,741	106	15,254
2012 - 2016	10,556	10,402	38	2	28	1	21,027	-	-	21,027
	-	-	-	-	-	-	-	-	-	-
Total note payments	\$ 55,886	25,568	836	110	382	52	82,834	80,772	6,154	169,760

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(ii) Notes Payable - WSSC

In conjunction with the transfer of certain storm water drainage property and other assets from WSSC, the County is responsible for related debt service payments to the year 2010. The interest rates range from .01% to 8.5%. Debt service reimbursements to WSSC in fiscal year 2006 approximating \$770,900 are reported in the Primary Government's Stormwater Management Enterprise Fund. Following is a schedule of future principal and interest payments as of June 30, 2006 (in thousands):

Year ending <u>June 30,</u>	<u>Stormwater Management</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 600	148	748
2008	635	114	749
2009	675	79	754
2010	745	42	787
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,655</u>	<u>383</u>	<u>3,038</u>



PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(iii) Other General Long-Term Debt Notes Payable

The Primary Government is obligated for promissory notes in the amount of \$307,109 payable to the Maryland Industrial Land Act (MILA) of the State of Maryland with interest rate of 6.9%.

In fiscal year 1997, the County, the State of Maryland, The Maryland-National Capital Park and Planning Commission, JKC Stadium Inc., Jack Kent Cooke Inc., and Pro-Football Inc. entered into an agreement relating to the acquisition of property, the construction and operation of an NFL Stadium on that property, and the construction of related infrastructure. During 1999, WFI Stadium Inc. purchased FedEx Field from JKC Stadium Inc. Pursuant to this agreement, on September 12, 1996, the Primary Government entered into a loan agreement with the Maryland Department of Transportation in the amount of \$12,500,000 for the purpose of paying the costs and expenses to be incurred by the County in connection with the construction of "off-site" infrastructure. The loan is repaid at \$1,000,000 per year (including interest at the rate of 4.96%). The outstanding liability is \$4,509,895 at June 30, 2006.

The Primary Government entered into a loan agreement with the Maryland Department of Transportation for \$3,346,200 for the design and construction of a parking garage, of which \$1,312,021 is outstanding at June 30, 2006. The loan is repayable to the State in 20 annual installments with an interest rate of 7.25% and matures July 1, 2010. The County is reimbursed for the principal and interest under a lease agreement with the Washington Metropolitan Area Transit Authority.

The Primary Government borrowed \$6,000,000 under the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program. These proceeds are being paid to a Public/Private Partnership developer to revitalize the Eastover shopping center. The first principal payment of \$600,000 was paid on August 1, 1996 from a separate Economic Development Initiative grant. The developer is responsible for servicing the outstanding balance, which matures serially through August 1, 2015, at interest rates ranging from 6.24% to 7.66%. At June 30, 2006, \$3,870,000 remains outstanding.

The Primary Government entered into an agreement with HUD to administer a \$10,000,000 Section 108 Commercial Building Loan Fund. The first project financed under the loan fund was a \$2,000,000 loan paid to a private partnership for land acquisition. The first principal payment of \$165,000 was paid on August 1, 2002. The developer is responsible for servicing the loan balance that matures on August 1, 2011, at interest rates ranging from 3.66% to 5.8%. At June 30, 2006, \$1,341,000 was outstanding. The second project financed under the loan fund was a \$2,600,000 loan paid to a developer for the construction of a restaurant. The developer is responsible for servicing the loan balance that matures August 1, 2022, at rates ranging from 1.21% to 5.69%. At June 30, 2006, \$2,507,000 remains outstanding. The third project financed under this loan was a \$1,900,000 loan paid to a developer for land acquisition and the construction of rental housing units. The first principal payment of \$70,000 is due on August 1, 2006. The developer is responsible for servicing the loan balance that matures August 1, 2023, at rates ranging from 2.31% to 5.97%. At June 30, 2006, \$1,900,000 was outstanding. The fourth project financed under this loan was a \$1,837,000 loan paid to a sign manufacturing company for building acquisition and construction renovations to relocate the company. The first principal payment of \$46,000 is due on August 1, 2006. The company is responsible for servicing the loan balance that matures on August 1, 2024, at 4.41%. The outstanding balance as of June 30, 2006 is \$1,837,000.

On March 10, 1999, the Primary Government issued for the benefit of the Community Development Administration ("CDA"), a division of the Maryland Department of Housing and Community Development, a general obligation bond designated as "Prince George's County, Maryland Infrastructure Bond, 1999 Series A" in the amount of \$1,217,800 secured by the full faith and credit of the County. Secured by the pledges of seven participating local governments, including the Primary Government, the CDA issued on March 10, 1999 Infrastructure Financing Bonds (MBIA Insured) 1999 Series A in the aggregate principal amount of \$6,985,000. The Primary Government used the proceeds to provide funds to refinance certain outstanding loans and to purchase a fire truck for Accokeek Volunteer Fire Department, Inc. ("AVFD") and to pay the costs of issuance of bonds. Because the County issued the obligation to obtain a loan for the benefit of AVFD, the latter executed a promissory note on March 11, 1999 promising to pay to the Primary Government the principal sum of \$1,217,800, plus interest on the unpaid principal amount. The debt service payment made by AVFD to the Primary Government equals the Primary Government's debt service payments to the CDA. The debt is repayable to the State in 20 annual installments with interest rates ranging from 4.125% to 5.0%. At June 30, 2006, \$903,600 remains outstanding.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(15) Reserved and Designated Fund Balances

A schedule of reserved and designated fund balances at June 30, 2006 follows:

<u>Reservation of Fund Balances</u>	<u>Primary Government</u>	
Reserved for encumbrances:		
These reserves represent the portion of purchase orders and contracts awarded for which the goods or services had not yet been received at year-end.	\$ 7,427,413	General Fund
	31,814,600	Capital Projects Fund
Reserved for school construction and debt service		
These reserves represent the unused portion of school surcharge revenue and telecommunications tax	95,271,847	Capital Projects Fund
Reserved for inventories:		
These amounts represent the portion of fund balance that is not available for expenditures because the asset is in the form of commodities and the County anticipates utilizing them in the normal course of future operations.	1,667,843	General Fund
Reserved for contingencies:		
This amount represents the five percent charter-mandated reserve.	115,037,055	General Fund
Reserved for future debt service payment and special projects	2,523,788	Federal & State Aided Programs
Reserved for future debt service payment	<u>4,029,944</u>	Nonmajor Governmental Funds
Total reserved fund balances	<u>\$ 257,772,490</u>	

Unreserved - Designated Fund Balances

Designations of fund balances are established to identify tentative plans for or restrictions on the future use of financial resources.

A schedule of unreserved fund balance designations is as follows:

Designated for subsequent years' expenditures	\$ 24,800,000	General Fund
Designated for subsequent years' expenditures	233,300	Nonmajor Governmental Funds
Designated for equipment purchases	16,270,498	General Fund
Designated for real estate purchases	4,099,701	General Fund
Designated for other post employment benefits	25,000,000	General Fund
Designated for operating stability	<u>46,014,822</u>	General Fund
Total designated fund balances	<u>\$ 116,418,321</u>	

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(16) Summary Disclosure of Significant Contingencies

(a) Litigation

The County is involved in numerous lawsuits with potential liability ranging up to \$3.1 million. It is reasonably possible that some of these cases will be settled against the County, resulting in varying degrees of monetary damages. In the opinion of legal counsel and management, these cases will be settled for amounts not materially in excess of insurance coverage limits and those amounts provided in the accompanying financial statements.

(b) Contingent Liabilities

(i) Questioned Costs

The County participates in a number of Federally-assisted grant programs. These programs are currently under examination in accordance with Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations." The final results of this examination have not yet been determined. The amount of expenditures which may be disallowed by the granting agencies cannot be specifically determined at this time. The County expects any disallowed costs to be immaterial, as has been the case in previous program audits.

(ii) Brown Station Road Landfill

The Primary Government owns and operates the Brown Station Road Landfill, which is accounted for in the Solid Waste Enterprise Fund. Phase I of the landfill closed in September 1993 after 25 years of operation. Phase II of the landfill began operations May 13, 1992 and approximately 51.4% of total estimated capacity has been utilized as of June 30, 2006. It is expected to operate through the year 2011.

To close both Phase I and Phase II of the landfill, State and Federal laws and regulations require the County to place a final cover on both landfill phases. (The closure and post-closure plan for both phases is pending final State approval.) These laws also require the County to perform certain maintenance and monitoring functions at the landfill site. In accordance with statutory requirements, the Primary Government estimates closure costs only for Phase I, of approximately \$23.4 million (\$14.2 million of which has been liquidated), and closure and 30-year post-closure costs for Phase II of \$56.4 million. Estimated costs are "as if incurred" in fiscal year 2005 and may change due to inflation, technological enhancements, and revisions to State and Federal requirements - as well as any additional measures that may be undertaken to safeguard the quality of life for residents. (These estimates are updated annually.)

At June 30, 2006, the Primary Government has recorded an accumulated total liability for closure and post-closure costs of \$38.1 million for Phases I and II based on the percentage of capacity of Phases I and II utilized to date multiplied by the total capacity of Phases I and II. Employing accounting rules for regulated enterprises, \$3.5 million of these costs have been deferred and will be recognized as future landfill revenues earmarked for closure and post-closure are earned. As of June 30, 2006, the Primary Government's Solid Waste Enterprise Fund shows restricted assets of \$51,478,461 for landfill closure costs. The fiscal year 2006 financial statements reflect post-closure expenses of approximately \$2.4 million, based on the above criteria.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(iii) Sandy Hill Landfill Lease - Primary Government

On July 1, 1992, the Primary Government entered into a three-part agreement with the Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture, to operate the Sandy Hill Landfill. The operations of this refuse disposal facility have been contracted to Waste Management, Inc., an independent contractor since May 1977. Part one of the agreement represents an "Assignment" to the Primary Government of the rights and responsibilities of M-NCPPC to operate the Landfill. These include (1) M-NCPPC's rights under Maryland State Refuse Disposal Permit Number 89-16-14-10A to operate the site sometimes referred to as the "Existing Landfill"; (2) M-NCPPC's right to a 21% share of all operating fees collected by Waste Management, Inc.; (3) M-NCPPC's has no ownership rights to the expansion adjacent to the "Existing Landfill"; (4) the transfer by M-NCPPC of approximately \$1.8 million to be held in a Trust Fund for the closure and post-closure costs associated with the "Existing Landfill"; (5) M-NCPPC's rights to the services performed by Waste Management, Inc., to continue the operation of the "Existing Landfill" and also develop and to maintain the "Existing Landfill" through closure and one year of post-closure. Part two represents a lease which transfers to the Primary Government all of M-NCPPC's rights and responsibilities for the current and post-closure operations of the "Existing Landfill" which closed in June 2000; (6) In May 1997, the Primary Government was granted a permit by the Maryland Department of the Environment to vertically expand the operation. The Primary Government is required to pay M-NCPPC the sum of \$7.4 million through June 30, 2010 for these lease rights. The County made an initial payment of \$1.8 million in FY 1993. Additional payments have been neither appropriated nor paid consistent with the fiscal funding clause in the agreement. The third part of the agreement requires M-NCPPC to transfer to the Primary Government all its rights as Trustee to administer the Trust Fund.

As with the Brown Station Road Landfill, State and Federal laws and regulations require a final landfill cover and 30-years of post-closure activities. The contractor, Waste Management, Inc., is legally responsible for closure and one year of post-closure costs for the Sandy Hill Landfill. The Primary Government is legally responsible for the remaining 29 years of post-closure costs for the Sandy Hill Landfill. The County began working on the closure of the landfill in April 2003. It is expected to be completed June 2007.

The Primary Government has recorded an estimated liability for 29 years of post-closure costs of \$22.8 million, because this landfill is substantially full, of which \$13.8 million has been deferred as of June 30, 2006, and will be recognized as revenues earmarked for post-closure activities are earned over the life of the landfill expansion. Estimated costs for post-closure activities, are "as if incurred," and will be updated annually for changes in technology, applicable regulations, and inflation.

(c) Operating Leases

Under the terms of various operating lease agreements for facilities, the Primary Government's approximate future minimum annual rental payments for facilities are as follows (in thousands):

Year ending <u>June 30,</u>	Primary <u>Government</u>
2007	\$ 11,010
2008	11,234
2009	11,231
2010	11,504
2011	11,783
2012-2016	60,734
2017-2021	56,910
2022-2026	49,475
	<u>\$ 223,881</u>

During 2006, rent expense under these lease agreements amounted to approximately \$10.8 million.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(17) Joint Ventures

The County participates in the financial activities of certain entities providing services within the County, which are deemed joint venture activities. The joint ventures described in the following paragraphs are not reflected in the accompanying financial statements because the County has no equity interest in their operations.

(a) Washington Suburban Transit Commission

The Washington Suburban Transit Commission (WSTC) is a State of Maryland bi-county agency, which receives funds from Montgomery and Prince George's Counties, both of which participate in Washington Metropolitan Area Transit Authority (WMATA), to construct and maintain a cohesive and uniform transportation system. WSTC is composed of seven members; two from each county, two members appointed by the Governor of Maryland, and one ex officio representative from the Maryland Department of Transportation. WSTC acts as a coordinator for transit-related information and provides a forum for the discussion, formulation and transmittal of Federal, state and local funds paid to WMATA on behalf of the Maryland region. The annual operating costs of WSTC are shared equally by Montgomery and Prince George's counties. The Primary Government's share of these costs for fiscal year 2006 amounted to \$77,688.

(b) Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a bi-county agency servicing Montgomery and Prince George's counties regional system of parks. It also conducts the recreation program for Prince George's County. The Commission consists of ten members - five from each County. The County can modify its share of the budget and also approves applicable fees and sets the recreational tax rate. The County must also approve any debt issuances and is obligated to honor any bonded debt deficiencies (which to date has not occurred).

At June 30, 2006, the Primary Government was contingently liable as guarantor on bonds issued by M-NCPPC in the amount of \$106,535,000.

(c) Washington Metropolitan Area Transit Authority (WMATA)

On January 9, 1970, Prince George's County government entered into an agreement with other local jurisdictions for construction of the Washington Metropolitan Area Rapid Transit System. Since then, the County has entered into several additional agreements providing for financing of both construction and operations. The County's obligation for funding the construction of the rail transit facilities is borne by the State of Maryland. WMATA is governed by a board of six directors and six alternates, who are appointed on a pro rata basis by the Northern Virginia Transportation Commission, the City Council of the District of Columbia, and the Washington Suburban Transit Commission (mentioned above).

In 2006, the State contributed \$4.9 million toward the payment of principal and interest on WMATA revenue bonds. This was provided pursuant to amended Chapter 530, Acts of Maryland General Assembly 1980, which provides for State payment of 100% of the debt service bond repayment costs.

(d) Washington Suburban Sanitary Commission

The Washington Suburban Sanitary Commission (WSSC) is a bi-county political subdivision of the State of Maryland created to provide water supply and sewage disposal facilities for Montgomery and Prince George's Counties. WSSC's governing body is composed of six members, three from each county; the budgeting authority and financing responsibility is shared equally by the participating counties.

At June 30, 2006, the Primary Government was contingently liable as guarantor on bonds issued by WSSC in the amount of \$2,655,000.

PRINCE GEORGE'S COUNTY, MARYLAND  
Notes to Financial Statements

(e) Availability of Financial Statements

Complete separate financial statements may be obtained at the administrative offices of the individual joint ventures as follows:

Washington Suburban Transit Commission  
8720 Georgia Avenue, Suite 904  
Silver Spring, Maryland 20910

Maryland-National Capital Park and Planning Commission  
6611 Kenilworth Avenue  
Riverdale, Maryland 20737

Washington Metropolitan Area Transit Authority  
600 Fifth Street, N.W.  
Washington, D.C. 20001

Washington Suburban Sanitary Commission  
14501 Sweitzer Lane  
Laurel, Maryland 29797

(18) Jointly Governed Organization - Metropolitan Washington Council of Governments

The Metropolitan Washington Council of Governments (COG) provides to participating local governments within the Washington, D.C. metropolitan area resources for a regional approach to local urban problems, emphasizing regional planning, community and economic development and conservation. Under COG's bylaws, contributions of participating local governments are calculated on a per capita basis. The twenty-four board members are elected by the local jurisdiction which they represent; two members are appointed by the Primary Government. The Primary Government's fiscal year 2006 contributions to COG amounted to approximately \$596,057.

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